

THE CONCENTRATION OF AMERICAN BUSINESS AND FINANCE

IN PEACE AND WAR

By

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I. THE GROWTH OF ECONOMIC CONCENTRATION IN THE UNITED STATES.

1. Evidence of Growing Concentration.

The Smaller War Plants Corporation is a result, more than anything else, of the extreme economic concentration which existed before and during the war. Had it not been for the dominance of our major industries by a handful of giant corporations, war contracts would, out of necessity, have been more widely diffused and the facilities of small business would have been much more extensively utilized. But the extreme concentration led to the neglect of small business and thus to the creation, by unanimous vote of Congress, of the Smaller War Plants Corporation. The very existence of the Corporation is, therefore, a recognition by the people and by Congress of the threat to democracy and the success of the war effort inherent in an economy ruled by giant corporations, monopolies and cartels. In short, the history of concentration in this country is the history of the basic reason of the Corporation's existence.

Concentration of economic power in the hands of Big Business has now reached the highest point in the nation's history. With the rapid industrialization of the economy during the past century, giant corporations have risen to dominate, and often completely to monopolize one industry after another. The concentration movement has been nurtured and has thrived most during wars and booms. It has often been retarded by depressions, but has emerged in each succeeding generation as a more serious threat to economic democracy and freedom of enterprise.

The current war, which has witnessed an enormous expansion in industrial facilities amounting to approximately half again as much as existed prior to the war, has resulted in a further enhancement of the economic power in the hands of giant corporations.

The extreme development of economic concentration reached during the 1930's and early 40's is indicated by the following facts:

1. The 45 largest transportation corporations owned 92 per cent of all the transportation facilities of the country. 1/
2. The 40 largest public utility corporations owned more than 80 per cent of the public utility facilities. 2/
3. The country's 20 largest banks held 27 per cent of the total loans and investments of all the banks. 3/
4. The 17 largest life-insurance companies accounted for over 81.5 per cent of all the assets of all life-insurance companies. 4/

1/ National Resources Committee June 1939: "The Structure of the American Economy", Part 1, p. 106

2/ Idem

3/ Twentieth Century Fund, Inc: "Big Business, Its Growth and Its Place", 1937. p. 9

4/ National Resources Committee, op. cit. p. 103

5. The 200 largest non-financial corporations owned about 55 per cent of all the assets of all the non-financial corporations in the country. 5/
6. One-tenth of 1 per cent of all the corporations owned 52 per cent of the total corporate assets. 6/
7. One-tenth of 1 per cent of all the corporations earned 50 per cent of the total corporate net income. 7/
8. Less than 4 per cent of all the manufacturing corporations earned 84 per cent of all the net profits of all manufacturing corporations. 8/
9. In manufacturing, 26 per cent of the total value of products was concentrated in industries where the four largest concerns made over 75 per cent of the total number of products. 9/
10. More than 54 per cent of the total value of manufactured products was concentrated in industries

5/ National Resources Committee June 1939: "The Structure of the American economy", Part 1, p. 107

6/ President of the United States in his message to Congress April 20, 1938: 75th Cong., 3d sess., S. Doc. 173, Strengthening and Enforcement of Anti-Trust Laws, p. 2

7/ *Idem*

8/ *Idem*

9/ Temporary National Economic Committee, Monograph No. 22 "Technology in our Economy", p. 195

where the four largest concerns made over 50 per cent of the total number of products. 10/

11. One-tenth of 1 per cent of all the firms in the country in 1939 employed 500 or more workers.

These same firms accounted for 40 per cent of all the employment in the country. 11/

12. In manufacturing 1.1 per cent of all the firms employed 500 or more workers and accounted for 57 per cent of all the manufacturing employment in the country. 12/

13. The 250 largest manufacturing corporations during the war (ranked by gross capital assets plus public facilities operated) were responsible for 60 per cent of the privately financed war facilities constructed, operated 78 per cent of the government-built facilities and received 79 per cent of the prime war supply contracts. 13/

10/ Temporary National Economic Committee, Monograph No. 22 "Technology in Our Economy", p. 195

11/ Howard R. Bowen, Donald W. Paden, and Genevieve B. Wimsatt: "The Business Population in Wartime", Survey of Current Business", May 1944, pp 12-13

12/ Idem

13/ Smaller War Plants Corporation: "18th Bimonthly Report to Congress", April-May 1945, p. 7

14. Three-fifths of the postwar capacity to produce are held by the 250 largest manufacturing corporations and the remaining two-fifths are spread among the more than 75,000 remaining medium-sized and small corporate manufacturing enterprises. 14/
15. One-third of the industrial-research personnel were employed by 13 companies. Two-thirds of the research workers were employed by 140 companies and the remaining third were employed by 1,582 concerns. About 150,000 industrial corporations were without research laboratories. 15/

2. The Trust and Merger Movement Before World War I

Since the development of the factory system, with its machine processes which made possible a steadily expanding scale of production, there has been a marked tendency toward the combination of industrial units under centralized control. Beginning shortly after the Civil War, many businesses attempted to gain control of specific industries and to restrict prices and output through the formation of "pools" and

14/ Smaller War Plants Corporation: "18th Bimonthly Report to Congress", April-May 1945, p. 9

15/ Works Progress Admn., National Research Project on Reemployment Opportunities and Recent Changes in Industrial Techniques, "Industrial Research and Changing Technology", 1940, pp 45-46

"gentlemen's agreements". These same objectives were the cause of the trust movement which flourished from the eighties through the turn of the century.

It was during these early years that such trusts as Standard Oil, the American Tobacco Co., The American Sugar Refining Company and many others were formed. The movement approached a peak in 1901 with the formation of the billion-dollar United States Steel Corporation, and, by 1904, the so-called trusts had in their hands 40 per cent of all the manufacturing capital in the United States. ^{16/} A long list of products had been brought under virtual monopoly control. They included: ^{17/}

- | | | |
|--------------------------|----------------------------|----------------------|
| 1. Asphalt | 11. Farm machinery | 21. Rubber |
| 2. Bathtubs | 12. Gun-powder | 22. Shipping |
| 3. Bicycles | 13. Lead | 23. Shoe machinery |
| 4. Cash registers | 14. Leather | 24. Starch |
| 5. Cordage | 15. Linseed oil | 25. Steel |
| 6. Corn Products | 16. Matches | 26. Sugar |
| 7. Cotton yarn | 17. Meats | 27. Tobacco products |
| 8. Cottonseed oil | 18. Petroleum products | 28. Tin cans |
| 9. Chewing gum | 19. Photographic materials | 29. Window glass |
| 10. Electrical equipment | 20. Plate glass | 30. Whiskey |

^{16/} Henry R. Seager and Charles A. Gulick, Jr., "Trust and Corporation Problems" (New York, 1929), p.61.

^{17/} Temporary National Economic Committee, Monograph No. 21, "Competition and Monopoly in American Industry", p 65

Before this wave of industrial amalgamations died down, 26 corporations controlled 80 per cent or more of the production in their respective fields; 57 controlled 60 per cent or more; and 78, 50 per cent or more. 18/

The stock market crash of 1903 and the business crises of 1907 marked the temporary cessation of the combination movement which was under attack by the Roosevelt Administration. The above figures indicate, however, the extreme character of the dominance which the large corporations had attained in specific industries. The earliest available measure of the strength of large corporations relative to the whole economy is provided by the estimate of Gardiner C. Means that the 200 largest non-financial corporations in 1909 owned one-third of the assets (exclusive of intercorporate securities) of all non-financial corporations. 19/ Thus, long before the outbreak of World War I, and notwithstanding the passage of anti-trust statutes and the dissolution of a number of trusts, the large corporations had begun to dominate the American economy.

The growth in the concentration of economic power may be most readily described by reference to the charts included with this study.

18/ John Moody, "The Truth About the Trusts" (New York, Chicago, 1904) p 487

19/ National Resources Committee, June 1939: "The Structure of the American Economy", Part 1, p 107

Chart I (see page 10) contains the best available measures of concentration compiled by various authorities, and covering various intervals during the period 1909-42. All of the series shown on the chart are in terms of percentages.

It is apparent from the chart that there has been a more or less steady upward trend in the concentration of control exercised by the corporate giants. Thus, the 200 largest non-financial corporations increased their relative importance from ownership of one-third of the assets in 1909 to 48 per cent in 1929 and to 55 per cent in the early 30's. The sharp upward sweep in the twenty years before the crash of '29 is confirmed by another series showing that the percentage of the total net income of all non-financial corporations earned by the 200 largest non-financial corporations (income corporations only) increased from 33 per cent in 1920 to 43 per cent in 1929.

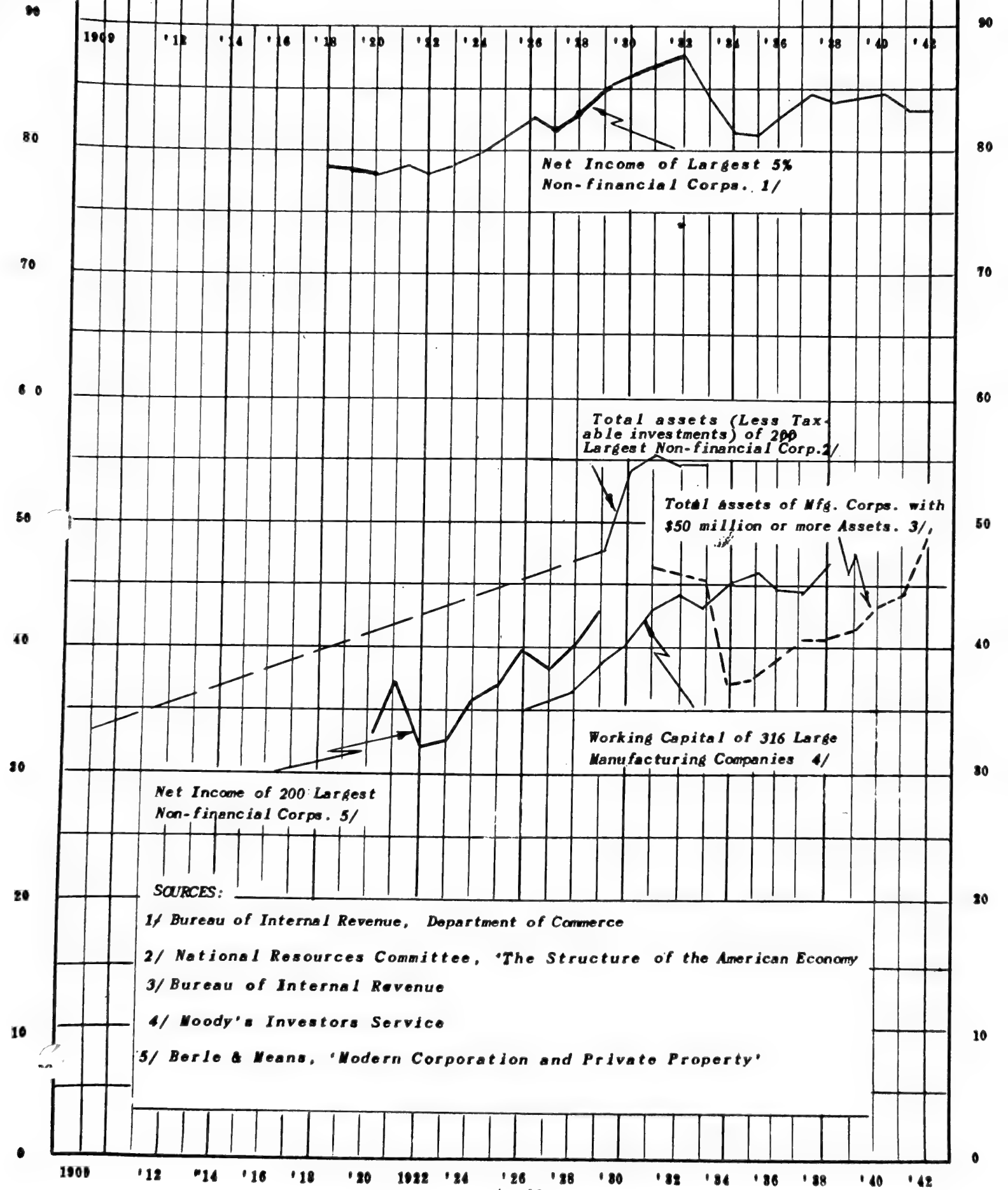
Another series portrayed on the chart shows the percentage of all working capital of manufacturing corporations held by 316 large manufacturers. This provides a useful link to the other series and confirms the general upward trend in concentration. In 1926 the 316 large manufacturing corporations held 35 per cent of the total working capital. By 1938 the percentage had risen to 47 per cent.

For the period of 1931 through 1942 data are available indicating the percentage of total manufacturing assets held by corporations of more than \$50 million in assets. This group of corporations represents the giants of industry and corresponds roughly to the segment of

Percent
100

12 Percent
100

CHART - I
GROWTH IN ECONOMIC CONCENTRATION
Percentages of Total Resources and
Profits Held by Big Business, 1909-1942



the economy included among 200 largest non-financial corporations, and may be used broadly to measure the trend in concentration up to recent times. In 1942 there were 205 such giant manufacturing corporations. We find that this group of manufacturing corporations, after declining in importance from a 46 per cent ownership of the total in 1931 to 37 per cent in 1934, rose sharply to the point of ownership of 49 per cent of all the corporate manufacturing assets in 1942.

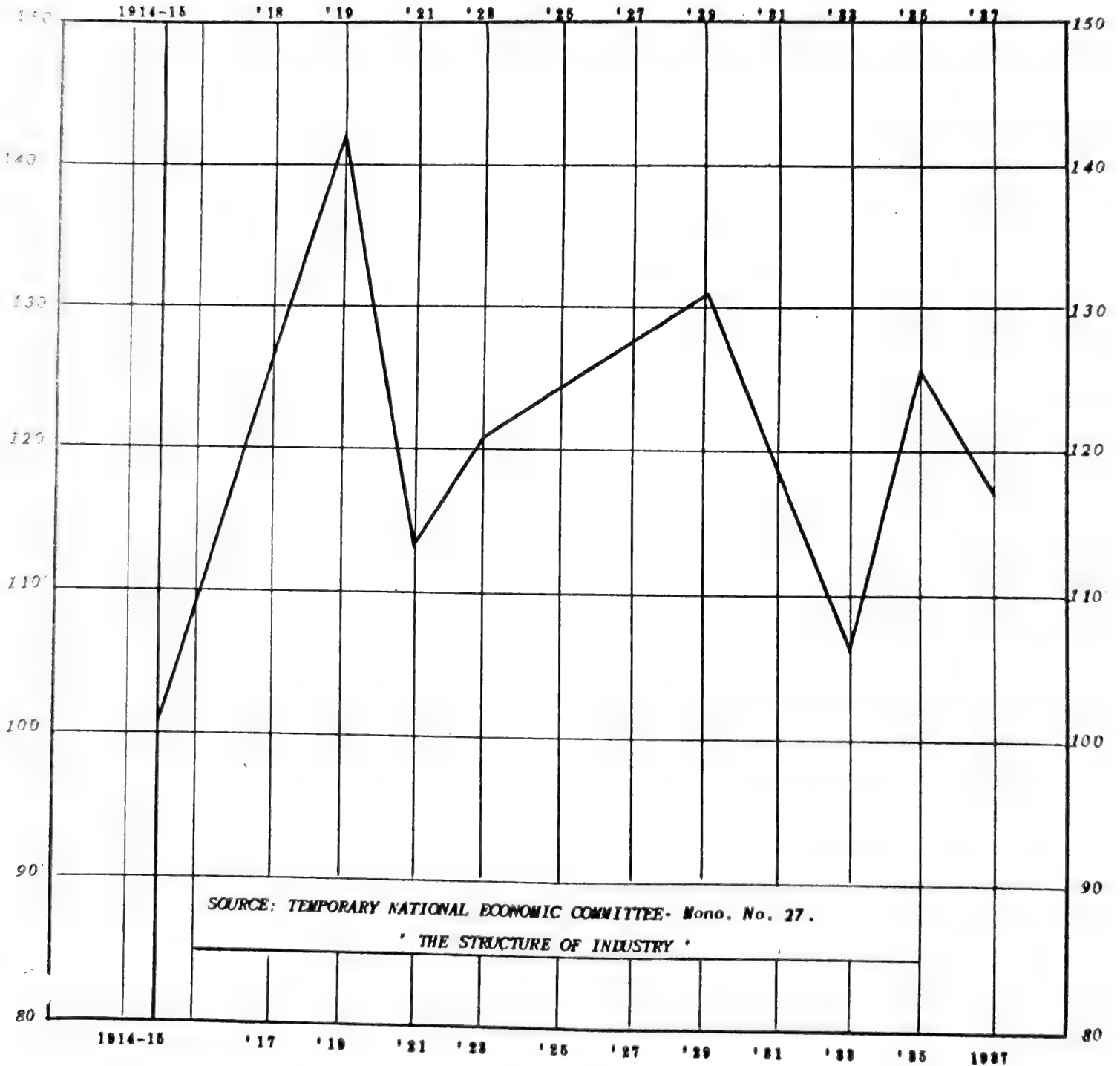
Finally, the chart shows the concentration of net income of the largest 5 per cent of the non-financial corporations for the period 1918 through 1942. Although it includes large and some medium-sized firms with the giant corporations, this series is useful as a measure of the long-term trend. The upper 5 per cent of the non-financial corporations earned 78.9 per cent of the income of all non-financial corporations in 1918. Its share of earnings rose to 87.9 per cent in 1932, fell back during later depression years, but then turned upward and stood at 84.4 per cent of the total in 1942.

3. The Seeds of New Merger Movement Were Sown During World War I.

Some perception of the growing importance of big business in the labor market during World War I and thereafter may be gained from Chart II (see page 12). This chart shows the concentration of employment in manufacturing, and is based on the percentage of establishments which employed 50 per cent of the nation's factory workers. Employment concentration is shown in terms of index numbers with 1914 as equal to 100. It should be realized that this chart substantially understates

CHART II
GROWTH IN ECONOMIC CONCENTRATION
CONCENTRATION OF EMPLOYMENT IN MANUFACTURING, 1914-1937
 (Based on percentage of Establishments employing 50% of Nation's Factory Workers)

INDEX, 1914 = 100



the trend of economic concentration since it relates to employment in establishments -- essentially plants -- rather than in companies or corporations. During the entire period covered on the chart, large corporations were busily acquiring individual establishments, as will be shown later.

Despite the fact that a high degree of concentration of employment existed prior to World War I (3.4 per cent of the establishments employed half of the workers), it increased by more than 40 per cent from 1914 to 1919.

This great increase was in substantial part a war phenomenon. With the war, American business again felt its power. War contracts were issued predominately to the large concerns and they accumulated huge profits and controlled the destinies of great numbers of workers. It is of particular interest to note that in the entire postwar period the concentration of employment never dropped to the 1914 level. This chart also confirms the impression that wars and booms are periods of increasing concentration and depressions are periods when the expansion of big business is checked or retarded. This is due partly to the fact that the capital goods industries are highly concentrated and suffer more seriously on the downswings of the business cycle than do the consumers' goods industries in which smaller firms are more prominent.

Between 1914 and 1937 concentration increased since, in the earlier year, 50 per cent of the wage-earners were employed by 3.4 per

cent of the establishments, whereas in the latter year, the 50 per cent were employed by only 2.9 per cent of the establishments. These changes are shown on Chart II in terms of index numbers. In 1914 the index of concentration stood at 100, but by 1937 it had risen to 117, as compared with 131 in 1922 and 142 in 1919.

4. Giant Corporations in Basic Industries Expanded Rapidly in Postwar Period.

The conclusion of World War I ushered in a new period of industrial expansion, and, with it, a further growth took place in the relative importance of big business. Illustrative of this movement is the rise in the percentage of business accounted for by the leaders of the automobile, iron and steel, and copper industries, shown in Chart III (see page 15).

The automobile industry emerged into a major field of economic activity after World War I, achieving a production of more than 2 million vehicles by 1920. As indicated on the chart, the ~~three~~ largest producers of automobiles accounted for 42 per cent of total output in 1909 and 51 per cent in 1915, but their control spurted to 71 per cent in 1920, to 83 per cent in 1930, and to more than 90 per cent in 1938.

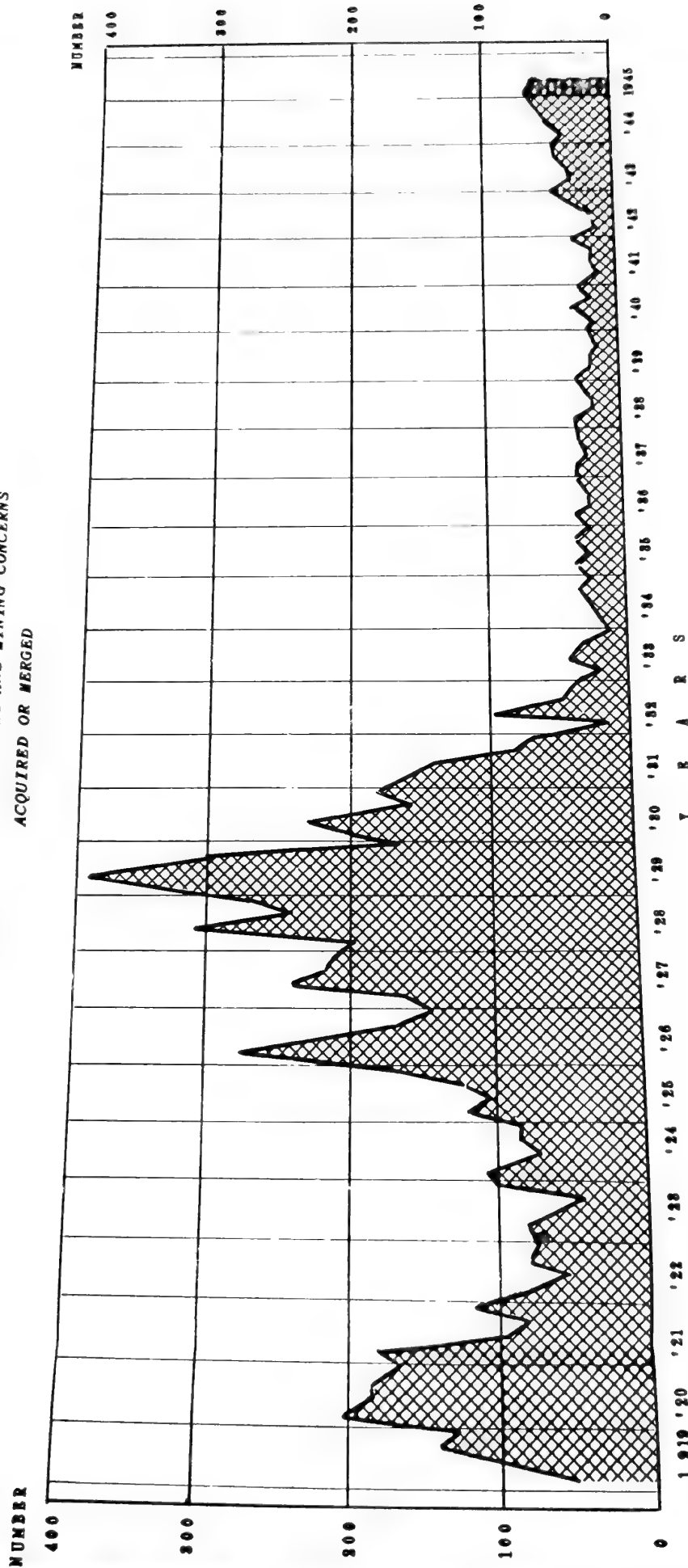
Back in 1880, the four largest producers in the iron and steel industry owned 25 per cent of the rolling mill capacity of the country. By the turn of the century the largest four held more than 60 per cent of the capacity. At the end of World War I the top four steel producers held 55 per cent of the capacity, but by 1938 the percentage had risen to 64 per cent.

THE MERGER MOVEMENT

1919 - 1945

(By Quarters)

NUMBER OF MANUFACTURING AND MINING CONCERNS
ACQUIRED OR MERGED



Enty 36

By Thom

There was so much talk of mergers and consolidations during those years that the period became known as "the era of consolidation." This movement was particularly active in the iron and steel and machinery industries, which accounted for about one-fifth of all mergers and acquisitions in manufacturing and mining from 1919 through 1928. The oil industry was greatly in evidence early in the period, but did not figure so prominently later on. Food producers, such as independent dairies, cheese factories, and bakeries, were absorbed in great numbers by leading companies, and there were a surprising number of mergers in the textile and chemical industries.

The merger movement was not, of course, confined to the manufacturing and mining fields. A marked tendency toward vertical integration was taking place in the motion-picture industry, where theaters were formed into chains, subsequently brought under control, first, of film distributors, and still later, of film producers. According to the Temporary National Economic Committee "the production and distribution branches of the motion picture industry were dominated by five large companies. These are flanked by three satellite organizations, unable in their own economic interest to oppose the policies of the controlling five." 21/

21/ Temporary National Economic Committee, Monograph No. 43
 "The Motion Picture Industry -- A Pattern of Control", p 53

There was also a marked increase in chains of retail stores, department stores and hotels. By 1929, 20 per cent of retail sales were handled by chain stores. In 1939, they accounted for 22 per cent. 22/

The twenties also saw a rapid growth of giant public utility systems which only subsided because of a scarcity of enterprises which could be merged or absorbed. By 1930, about half the public utility industry was in the hands of three controlling groups, and an additional 10 control groups ruled over another 20 per cent of the industry. 23/

6. A Sharp Revival in the Merger Movement in 1942.

The collapse after 1929 was precipitous, and relatively few acquisitions took place during the remainder of the thirties.

In the early stages of World War II, there was little incentive for large concerns to acquire small businesses. War orders were highly concentrated in a few large concerns, and their unused capacity was rapidly put into use. However, as prospects for the production of civilian goods improved, the elements of competition and control over markets again became important, and there occurred a revival of interest in mergers and acquisitions. This development was greatly enhanced by vast accumulations of liquid funds in the hands of large companies.

22/ Department of Commerce, Bureau of the Census: "Census of Business, Vol. 1," "Retail Trade: 1939," Part 2, p 9

23/ Tippetts, Charles S., and Shaw Livermore, "Business Organization and Control," New York, 1922, p 509

The upward trend in acquisitions took hold in the latter part of 1942. After that time the increase was marked. By the last half of 1944, when optimism over a quick victory in Europe and hopes for early reconversion to peacetime production had reached a peak, acquisitions and mergers attained the highest level since 1931 and were still moving up.

7. New War Acquisitions Mostly of Small Firms.

During the five years, 1940-1944, there were about 650 recorded cases of acquisitions or mergers. */ Most of them represented the swallowing of small business by large concerns; ninety-four per cent were acquisitions of capital stock or assets. Only six per cent took the form of mergers -- where the two or more parties to the transaction usually approximate one another in size.

8. Food and Liquor Industries Going Large-Scale

By far the largest number of acquisitions occurred in the food and liquor industries. This represents a continuation of the growth of large chain grocery, dairy and specialty concerns, as well as the development of a vast consolidation movement on the part of the distilling interests.

*/ "The record is neither complete nor accurate. Some consolidations or acquisitions may never have reached the public press or the trade journals, although it is difficult to believe that many important cases would have been kept secret....At any rate the records are probably correct as to trend." (Temporary National Economic Committee Monograph No. 27, "The Structure of Industry." P 232.)

Large liquor concerns have been very active in acquiring small distillers and recently entered the winery field on a large scale. In fact, the "Big Four" of the distillers now control more than half of the country's winery capacity. They have also bought into the eastern importers, wholesalers and retailers of wine, to achieve even greater control over that field. 24/

Drug and pharmaceutical companies have also figured prominently in the recent acquisitions movement. One large pharmaceutical house absorbed as many as 19 concerns during the war, including 2 dairies, 1 coffee plant and 1 bakery. As in foods, the key to this expansion appears to be the vertical integration of operations on the part of concerns with well established nation-wide distribution systems and "well-oiled" advertising set-ups.

Although there is an underlying current of acquisition going on all the time, a significant shift in the industries represented in the movement has occurred since the '20s, when so many industries reached a high degree of concentration. In general, it may be noted that most of the recent gobble-ups have taken place in non-concentrated industries, many of which were not directly engaged in war work, and which, in many respects, offer pioneering fields for corporate expansion.

24/ FORTUNE, September 1943: "The Big Wine Deal".

The relative importance of the major manufacturing and mining industries in the two merger movements is indicated in Table 1 (see page 27). This table also shows the pre-World War II employment status of the various industries, in terms of the percentage of total workers employed. The latter figure set up a yardstick against which the mergers may be measured.

Recently the food, liquor and chemical (principally drugs and pharmacouticals) industries have figured much more prominently in the acquisition of small firms than in the post-World War I period. In fact, they account for one-third of the recent acquisitions, whereas they employed only 14 per cent of the workers before the war.

Iron and steel and machinery were equally important in both periods, accounting for about 20 per cent of the total, or just about precisely their share, as indicated by employment status. The textile industry accounted for 7 per cent of the acquisitions in both periods, or much less than its importance -- 22 per cent -- in total employment.

Motor vehicles, non-ferrous metals, oil and coal -- all highly concentrated -- hardly participated at all in the recent "gobble-up" movement, mainly because few small businesses are still available for purchase in those fields.

Table 1: RELATIVE IMPORTANCE OF MAJOR
MANUFACTURING AND MINING INDUSTRIES
IN MERGER MOVEMENT *

1919-28 and 1940-44

Industry	Concerns Merged or Acquired		Pre-World War II Employment Status
	1919-28	1940-44	1939
Percentage of Total			
Oil	10.7	(7.2)	1.0
Coal	4.0		0.3
Iron and Steel and Machinery	18.3	20.3	20.4
Non-ferrous Metals	11.3	1.4	2.6
Textiles	6.7	6.8	22.1
Motor Vehicles	5.0	1.9	4.6
Chemicals	4.9	12.4	3.3
Food & Liquor	13.9	21.1	10.8
Lumber & Paper	7.0	4.7	6.3
Other	<u>18.2</u>	<u>24.2</u>	<u>28.6</u>
Total	100.0	100.0	100.0

* Sources: 1918-28, Willard L. Thorp,
"The Changing Structure of Industry,"
Recent Economic Changes (1929) Vol. 1, p. 186; 1940-44,
Smaller War Plants Corporation; Employment, Bureau of
Labor Statistics.

9. War-Time Gains in Concentration.

It is, of course, too early to fully appraise the gains that Big Business has achieved during the war. Such evidence as is available, however, indicates strongly that the economic power of giant corporations has been materially advanced and that they will emerge from the war in virtual control of America's economic destiny and, perhaps, our political destiny as well.

The available data bearing on this problem are as follows:

1. Increases in employment and wages paid in large plants.
2. Pyramiding of production in giant metal working plants.
3. Increasing concentration of assets in giant corporations.
4. Concentration of private and public facilities and war supply contracts.
5. The structure of potential post-war capacity to produce.

10. Shift of Workers to Large Plants Substantial During War.

The Bureau of Old Age Survivors Insurance of the Social Security Board collects quarterly reports from all concerns in the country. These figures (see Table 2 on page 29) show that companies employing 1,000 workers or more accounted for 30.4 per cent of total employment in 1939. By 1943 the figure had risen to 43.8 per cent. Similarly, these large concerns increased their percentage of wages paid during this period from 35.7 to 53.1 per cent.

Table 2. CONCENTRATION OF EMPLOYMENT AND TAXABLE WAGES ALL INDUSTRIES, 1938-43*
(By Quarters)

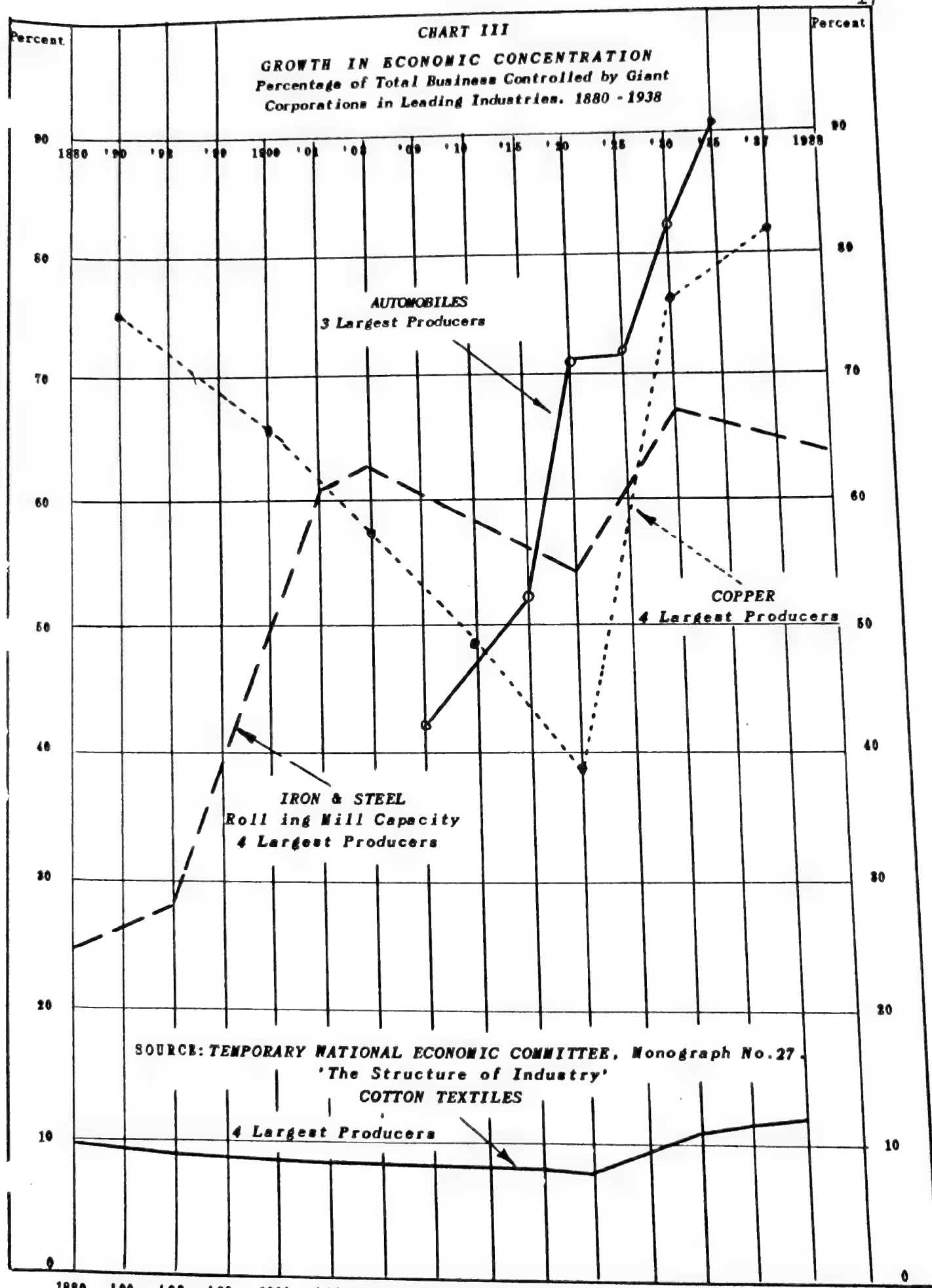
	Number of Employees in Employing Organization																	
	0 - 100				100 - 1,000				Over 1,000									
	Employing Organizations		Taxable Payrolls		Number of Employees		Employing Organizations		Taxable Payrolls		Number of Employees		Employing Organizations		Taxable Payrolls		Number of Employees	
	thousands % of Total	% of Total	millions % of Total	% of Total	thousands % of Total	% of Total	thousands % of Total	% of Total	thousands % of Total	% of Total	millions % of Total	% of Total	thousands % of Total	% of Total	thousands % of Total	% of Total	thousands % of Total	% of Total
1938	1,680.8	98.5	2,567.5	40.7	10,001.4	44.7	24.2	1.4	1,707.3	27.0	6,011.3	26.9	1.9	.1	2,041.9	32.3	3,753.0	28.4
1939	1,744.5	98.3	2,821.4	38.1	10,774.2	42.5	27.5	1.6	1,943.0	26.2	6,875.7	27.1	2.2	.1	2,643.9	35.7	7,729.3	30.4
1940	1,790.2	98.3	2,848.2	36.3	11,513.4	41.8	29.4	1.6	2,022.4	25.7	7,337.2	26.6	2.3	.1	2,986.1	39.0	8,590.2	31.6
1941	2,022.6	98.2	3,369.8	31.3	13,129.5	41.4	34.4	1.7	2,779.4	25.8	8,629.9	26.5	2.8	.1	4,616.3	42.9	10,787.3	33.1
1942	1,866.0	98.1	3,571.8	27.3	10,821.6	34.5	33.1	1.7	3,303.9	24.9	8,556.0	26.4	3.3	.2	6,315.1	47.8	13,022.0	40.1
1943	1,739.7	97.7	3,754.2	32.9	12,084.5	31.8	36.7	2.1	3,336.4	22.1	9,286.0	24.4	3.5	.02	8,070.6	53.1	16,617.2	43.8

***Source:** Bureau of Old Age and Survivors Insurance, Social Security Board

These figures include all types of businesses - retail and services, as well as manufacturing. Thus they reflect the disappearance of some half a million retail stores, construction and service enterprises, as well as the increase of concentration in manufacturing. It is unlikely, however, that the rise shown by these figures would have been so pronounced had there not occurred a substantial increase of concentration in manufacturing.

Similar evidence of rising concentration is provided in information obtained from the War Production Board for metal products industries. ^{25/} In 1939, small plants employing less than 500 workers accounted for 46.4 per cent of the value of shipments; by the fourth quarter of 1943 the figure had dropped to only 23.1 per cent. But the giant plants - those with more than 2500 workers - produced 22.3 per cent of the value of products in 1939 and 55.5 per cent in 1943. In other words, the share accounted for by small plants in this field was cut almost exactly in half while that of the giant plants more than doubled. The Bureau of Internal Revenue has released figures on the Statistics of Income covering the year 1942 which make it quite clear that the war has brought about a sharp increase in economic concentration.

^{25/} Testimony of Hon. Maury Maverick, Chairman and General Manager, Smaller War Plants Corporation, before Senate Small Business Committee, May 9, 1944, 78th Cong. (Part 35), p. 4367.



The copper industry presents an interesting picture of changing concentration. As indicated by the chart, the four largest producers controlled 76 per cent of the output in 1890. In 1920 this percentage had been cut to 39 per cent (Anaconda Copper contracted production in this year because of extensive expansion operations), but by 1937 the four top producers held the commanding position of controlling 82 per cent of the copper produced in the country. At the peak of war production, in 1943, these same four producers mined 80 per cent of the domestic copper, but in 1944, when many marginal mines were shut down, the Big 4 produced 86 per cent of the total.

A high degree of competition existed in the industry in its early days after the Civil War. Only the Michigan fields were under development and these were controlled by a number of individual mine owners. By 1887, however, the rich ores of Butte, Montana, had been developed, Montana had become the leading producing area, and the industry was highly concentrated. The copper kings of Butte were vying among themselves for power, and Anaconda alone produced 29 per cent of the country's copper.

Ensuing decades saw the development of new copper producing areas by independent companies in Arizona, Utah, and New Mexico. With the passage of time, however, most of these were gobbled up by the big companies, and, at present, the four major producing areas are dominated by four giant corporations which themselves account for better than four fifths of the copper mined in the country.

A shift has occurred among the leaders in the industry: and Kennecott Copper Corporation, in control of the Nevada and Utah fields, is the leading producer in the country, accounting in 1944 for 44 per cent of the total copper mined in the United States. Phelps-Dodge, representing a consolidation of the mining interest of Arizona, is now second with 24 per cent, while Anaconda Copper, top king in Montana, stands third with 16 per cent of the total. Calumet and Hecla, in command of the Lake Superior mines, has steadily declined in importance, and now as the fourth largest producer accounts for only 2 per cent (as against 23 per cent in 1890) of the country's copper output.

Even in the cotton textile industry, where concentration has never been as extreme as in these other industries, the control of the largest firms was increased during the post-war period. In 1920 the four largest cotton textile producers handled 8 per cent of the business. By 1937, their proportion of control had grown to 12 per cent of the total.

Indicative of the extremes of concentration reached prior to World War II, single companies dominated the following areas of industry:

20/

20/ Temporary National Economic Committee, Monograph No. 21, "Competition and Monopoly in American Industry", pp 65-112

1. Aluminum
2. Nickel
3. Molybdenum
4. Magnesium
5. Shoe machinery
6. Glass container machinery
7. Scientific precision glass
8. Domestic telephone service
9. Trans-oceanic telephone service
10. Railway sleeping and parlor cars
11. International cable and radio communication
12. Oil pipe lines
13. Railway freight
14. Trans-oceanic aviation

Two companies stood virtually alone in each of the following fields:

1. Bananas
2. Plate glass
3. Safety glass
4. Glass bulbs, tubing and rod
5. Glass bases for electric lamps
6. Electric accounting machines
7. Railroad air brakes
8. Oxyacetylene
9. Sulphur
10. Submarine cables between U. S. and foreign countries
11. Radio-telegraph service to many points abroad
12. Domestic telegraph service (since consolidated into one company)

A few firms controlled a major part of the supply in the following:

One company in each field produced --

1. 40 per cent of the industrial alcohol
2. 40 per cent of the corn products
3. 41 per cent of the farm machinery
4. 50 per cent of the towels
5. 60 per cent of the fruit jars
6. 66 per cent of the canned soup
7. 85 per cent of the fire extinguishing apparatus and supplies
8. 65 per cent of the cinema negative film; 75 per cent of the cinema positive film; and 85 per cent of the still film for amateurs.

Two companies manufactured --

1. 70 per cent of the heavier electrical equipment
2. 70 per cent of the electrical motors
3. 75 per cent of the watt-hour meters
4. 80 per cent of the distribution and power transformers
5. 89 per cent of the generators

Two companies manufactured --

1. 63 per cent of the farm machinery
2. 88 per cent of the grain and rice binders
3. 89 per cent of the corn binders

Two companies possessed 89 per cent of the capacity for synthetic nitrogen

Two companies, in each field, accounted for --

1. 47 per cent of the beef products
2. 51 per cent of the copper
3. 56 per cent of the glass containers
4. 62 per cent of the biscuits and crackers
5. 63 per cent of the ophthalmic lenses
6. 64 per cent of the tire cord fabric
7. 70 per cent of the milk bottles
8. 80 per cent of the locomotives

Three companies, in each field, produced --

1. 66 per cent of the chemicals
2. 68 per cent of the lead
3. 69 per cent of the copper
4. 70 per cent of the cast-iron enamel ware and vitreous china ware
5. 73 per cent of the farm combines
6. 74 per cent of the biscuits and crackers
7. 75 per cent of the ophthalmic lenses, frames and mountings
8. 75 per cent of the window glass
9. 78 per cent of the copper
10. 79 per cent of the calcined gypsum
11. 80 per cent of the cigarettes
12. 85 per cent of the fruit jars
13. 85 per cent of the cotton gauze, bandages, adhesives, sponges, pads, etc.
14. 86 per cent of the automobiles
15. 87 per cent of the gypsum board
16. 90 per cent of the tin cans
17. 90 per cent of the household cotton thread
18. 97 per cent of the snuff

Only three companies produced each of 28 manufactured products, including boric acid, linoleum, tennis balls, three types of marine engines, and four varieties of machine tools

Four companies, in each field, mined:

1. 42 per cent of the zinc
2. 63 per cent of the asphalt
3. 64 per cent of the iron ore
4. 78 per cent of the copper
5. 80 per cent of the gypsum
6. 84 per cent of the marble

Four companies accounted for:

1. 66 per cent of the slaughter of meat animals
 2. 52 per cent of the hogs
 3. 67 per cent of the cattle
 4. 71 per cent of the calves
 5. 85 per cent of the sheep, lambs and goats and sold --
-
1. 43 per cent of the pork
 2. 52 per cent of the lard
 3. 58 per cent of the beef
 4. 59 per cent of the cured pork
 5. 70 per cent of the veal

In 54, among 275 manufacturing industries, the four largest firms produced more than two-thirds by value, of the total supply.

5. The Merger Movement Reached Fever Heat During the Twenties.
It has Recently Been Revived.

One path followed by big business in reaching these heights of concentration was through mergers and consolidations. At the end of the first World War (see Chart IV on page 21), there occurred a wave of mergers and "gobble-ups" which extended through 1919, 1920 and the early part of 1921, until it was interrupted by the postwar depression. Again in 1925, when prosperous conditions returned, the absorption and purchase of small businesses was renewed. This tendency expanded at fever heat to reach all time peaks in 1928 and 1929.

[Missing
pages]

11. Small Business Has Lost Ground to the "Bigs".

This is apparent from Chart V (see page 38), which shows the total assets of small, medium, large and giant corporations, for each year during the period 1931-42.

The upper half of the chart shows the actual dollar value of assets -- which is a standard yardstick of economic strength -- and the lower half shows the percentage distribution.

As can be seen from the chart, the bulk of the increase during the war took place in the giant corporations. From 1939 to 1942, total assets of all manufacturing corporations rose by \$28.4 billion. Of this increase, \$18.1 billion took place in the giant corporations. Nearly all of the increase -- \$9.6 billion -- occurred in the large and the medium-sized corporations, with assets of small corporations rising by only \$700 million.

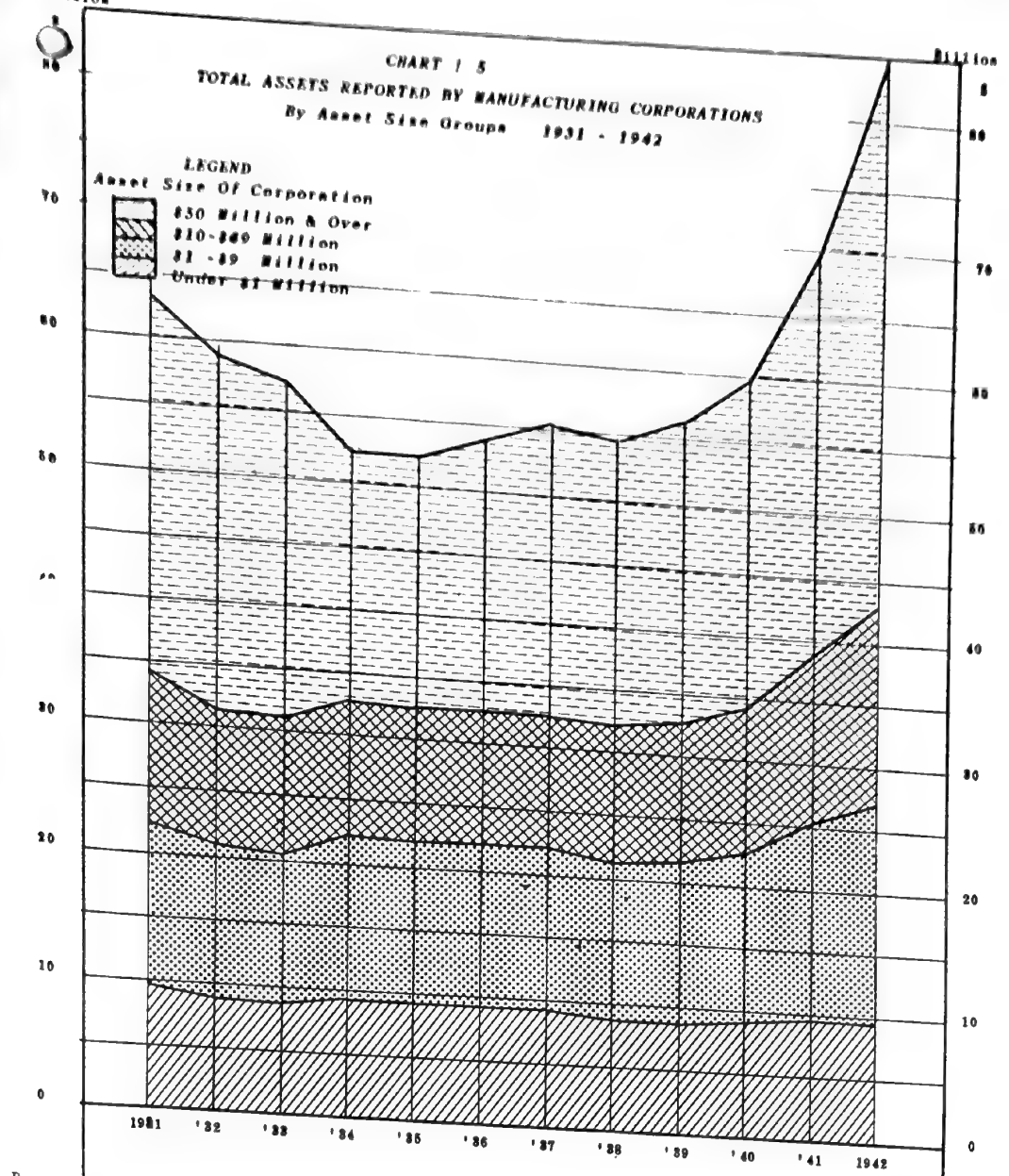
In addition, however, -- and this is not reflected on the chart -- these huge corporations operate most of the government-built plants, which, it appears, will fall into their hands after the war. If this occurs, the concentration will be even more extreme than is shown by the chart. But, excluding the government-owned facilities, an increase has definitely occurred during the war in the share of private assets held by the giant corporations and an almost corresponding decrease in the share held by small business.

Billion

Billion

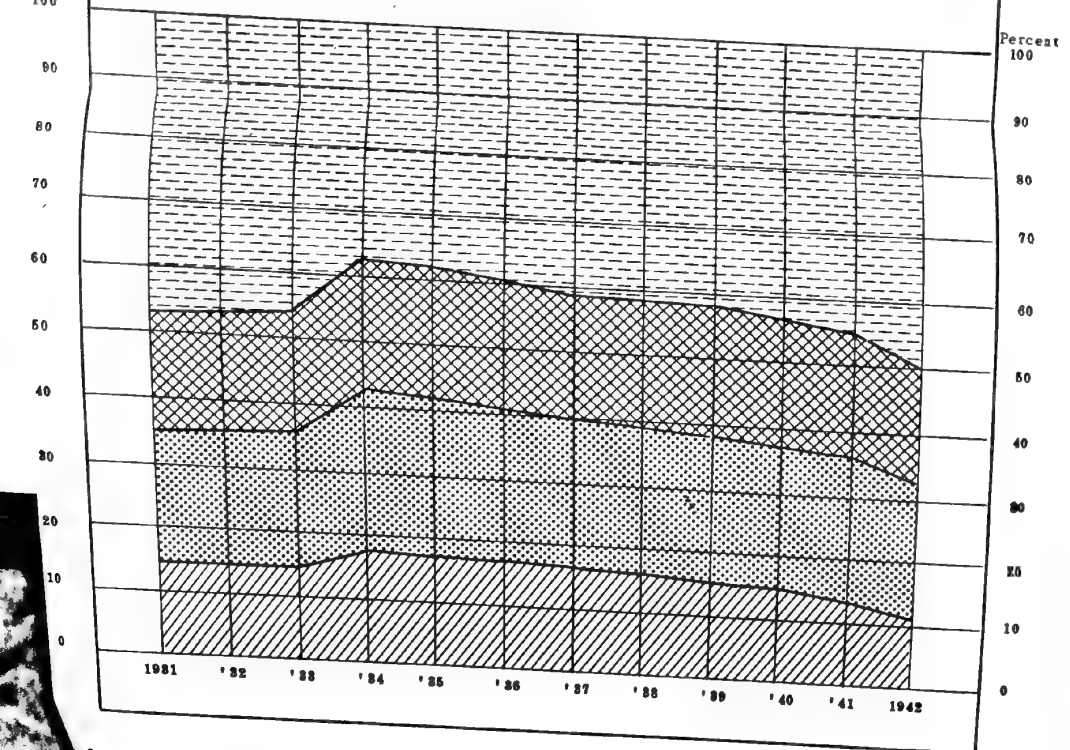
CHART 1 5
TOTAL ASSETS REPORTED BY MANUFACTURING CORPORATIONS
By Asset Size Groups 1931 - 1942

LEGEND
Asset Size Of Corporation
\$50 Million & Over
\$10-\$49 Million
\$1-\$9 Million
Under \$1 Million



Percent

Percent



The giant corporations owned 38 per cent of all corporate manufacturing assets in 1935, 42 per cent in 1939 and 49 per cent in 1942. Small corporations held 17.5 per cent of the total in 1935, 15.6 per cent in 1939 and 11.3 per cent in 1942.

II. BIG AND SMALL BUSINESS IN WAR PRODUCTION DURING THE SECOND WORLD WAR

1. The Share of Big Business in War Production.

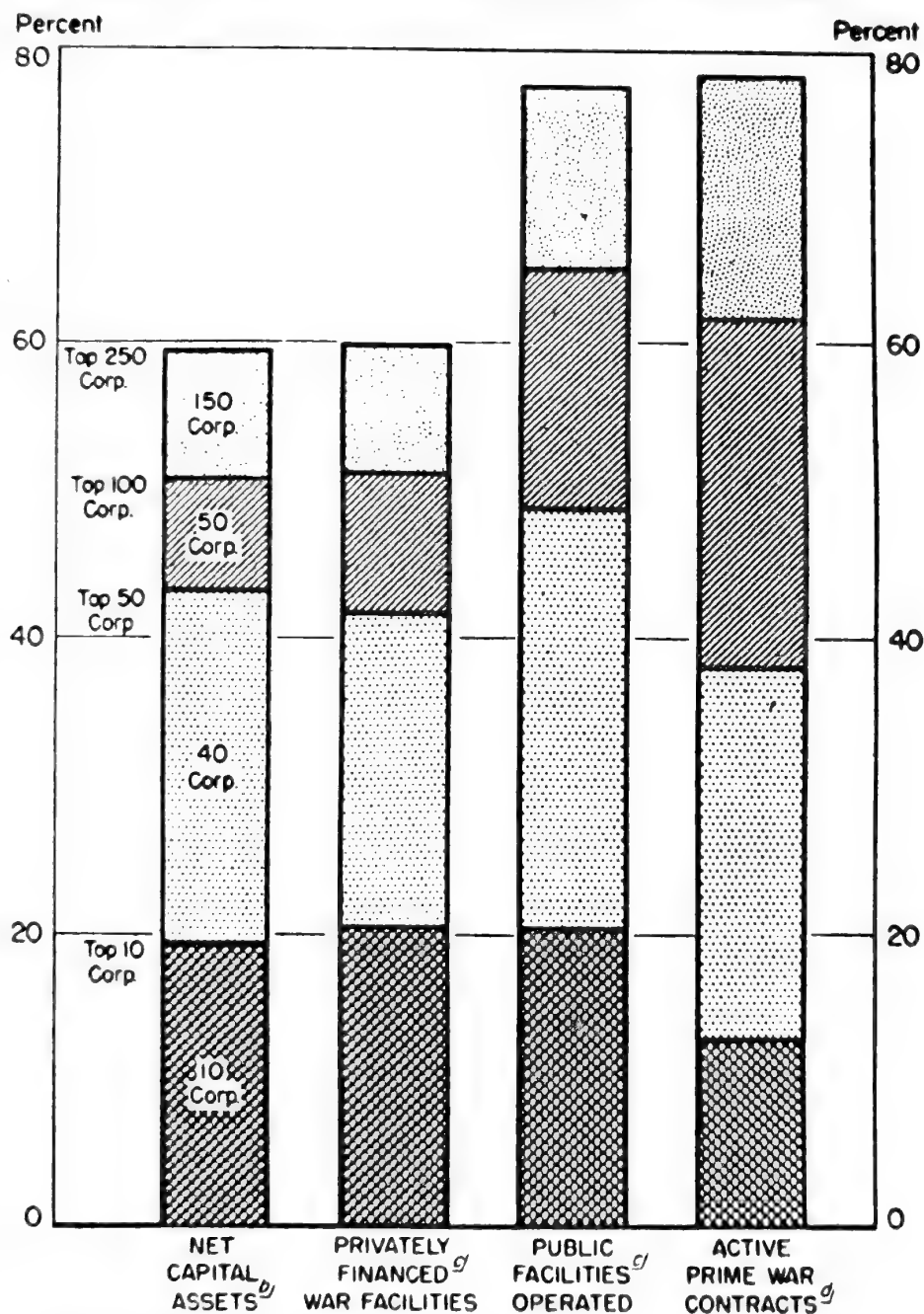
The extent to which most of the nation's war resources were invested in a relatively few large concerns is indicated by Chart VI (see page 35). This chart shows not only the net capital assets -- productive plant and equipment -- held by the 250 largest manufacturers in the country, but also the new privately financed facilities which these corporations constructed for war work with the permission of the war agencies, the government-built plants these companies operated, and the prime war supply contracts they handled.

The top corporations were selected on the basis of their total productive capacity, which consisted of the amount of facilities they owned, plus the government facilities they operated. Hence, the list includes the important "war babies", which own relatively little but operate huge government-owned facilities, as well as a number of large companies, such as oil and food concerns, which own sizeable amounts of assets but operate little, if any, war facilities and have received few prime contracts.

The 250 corporate giants own 60 per cent of the nation's net capital assets, that is, of its productive plant and equipment. About 75,000 other corporations own the balance of 40 per cent.

The 250 top corporations financed 60 per cent of all the war facilities under Certificates of Necessity which permitted them to be amortized for tax purposes over a period of five years.

SHARE OF BIG BUSINESS IN WAR PRODUCTION PERCENTAGES OF TOTAL CORPORATE CAPITAL ASSETS, WAR FACILITIES, AND PRIME CONTRACTS HELD BY 250 LARGEST^a MANUFACTURING CORPORATIONS



^aRanked by Gross Capital Assets plus Public Facilities operated

^bDecember 31, 1943

^cJune 1940-August 1944

^dSeptember 30, 1944

CHART VI

The 250 giants operated 78 per cent of the government-built facilities, upon which they generally held 90 day options to buy. The 250 giants also received 79 per cent of the prime war supply contracts.

In other words, big business received proportionately more of the war business -- nearly 80 per cent of the contracts and public facilities operated -- than its share of private productive capacity -- 60 per cent of net capital assets.

Big business has benefited during the war in a number of other important ways which cannot be measured or charted -- for example, in the scientific and technical research conducted at government expense by the large corporations. Obviously, the companies in whose plants this research work has been carried on will be its chief beneficiaries.

Innumerable new products and processes developed for war production can be adapted easily to peacetime output. Furthermore, large companies have gained invaluable "know-how" from producing a vast variety of munitions items under the pressure of war schedules. The "know-how" will cut costs and improve the efficiency and competitive advantage of these large companies. Large business ultimately may benefit even more from these intangible gains than from the more readily measureable factors, such as contract awards and plant equipment.

2. Big Business Capacity for Peacetime Production.

What will be the capacity of big business, as against that of medium-sized and small business, to produce in the postwar world? The answer to this question, more than anything else, will determine whether small business and competition can survive in the postwar world.

Chart No. VII (see page 38) compares the owned assets of the 250 largest corporations, plus their controlled and optioned government-built plants, with those of all other corporations.

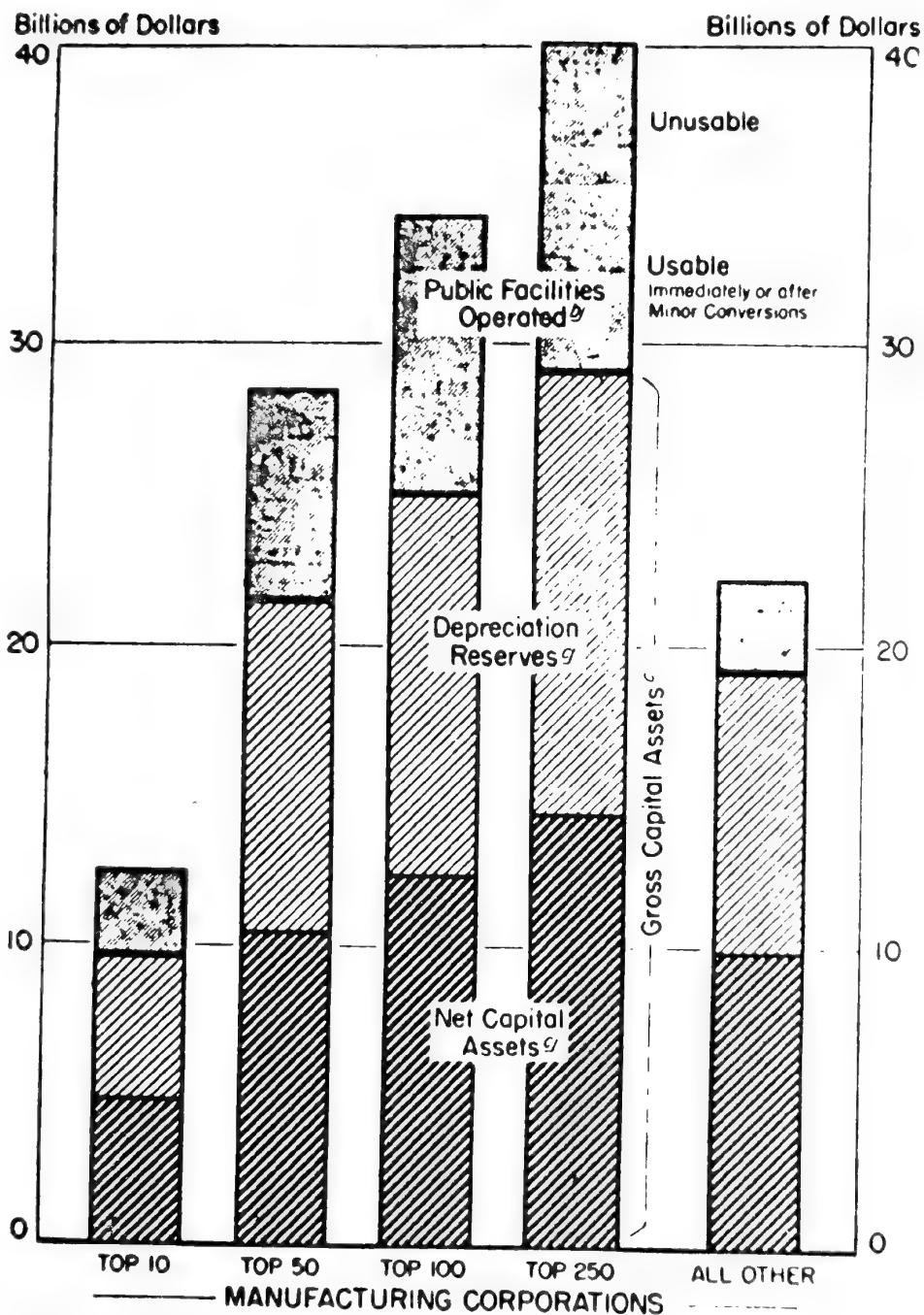
The net capital assets, the productive plant and equipment of the 250 largest corporations totalled 14.5 billion dollars, as compared to 9.9 billion dollars for all of the remainder of American corporate industry. In fact, the net capital assets held by the first 50 corporations amounted to more than those of all medium-sized and small corporations. On this basis, which would be the minimum measure of postwar capacity to produce, the 250 largest manufacturing corporations thus controlled only slightly under 60 per cent of the productive resources.

Actually, however, corporate evaluations of net capital assets (after depreciation) understate materially the productive value of equipment and plant. Physical assets are generally depreciated faster than normal wear and tear requires.

Creation of this "hidden" reserve production capacity has been vastly accelerated during the war because of the liberal 5-year amorti-

BIG BUSINESS CAPACITY TO PRODUCE CAPITAL ASSETS AND PUBLICLY FINANCED WAR FACILITIES

250 LARGEST⁹ MANUFACTURING CORPORATIONS VS.
ALL OTHER MANUFACTURING CORPORATIONS



⁹Based on Gross Capital Assets plus Public Facilities operated
⁹June 1940 - August 1944.
⁹December 31, 1943

CHART VII

zation provisions allowed for tax purposes under Certificate of Necessity. Therefore, a definite, but unknown, part of the depreciation reserve actually represents valuable postwar productive capacity.

The comparison of capital assets on a gross basis (before depreciation) shows that the 250 largest corporations held 29.1 billion dollars, with the balance of 19.1 billion dollars held by all other manufacturing corporations. On this basis, the 250 giants hold just over 60 per cent of the productive capacity.

Finally, the cost value of the publicly owned war facilities operated by the 250 largest corporations amounted to 11.1 billion dollars as compared to 3.2 billion dollars for the remainder of the American manufacturers.

The War Production Board estimates that approximately 60 per cent of the cost value of the government-owned plants in private hands will be usable immediately or after minor conversion. 26/ Most of the unusable facilities, or those that can be made usable only through major conversion, are held by the large companies. But, after allowance for this, the 250 largest corporations still hold some 6.1 billion dollars of readily convertible government facilities, as compared with 2.6 billion dollars of such facilities for all medium-sized and small manufacturers.

26/ Memorandum, H. G. Batcheller to J. A. Krug, Sept. 27, 1944.
(Restricted for Official Use.)

In short, the gross capital assets plus the usable publicly owned facilities amount to 35.2 billion dollars in the case of the 250 largest manufacturing corporations, as compared to 21.7 billion dollars for all other (about 75,000) manufacturing corporations. On this basis, 61.9 per cent of the productive facilities are held by the 250 largest corporations.

Three-fifths of the postwar capacity to produce are, thus, held by the 250 largest manufacturing corporations and the remaining two-fifths are spread among the more than 75,000 remaining medium-sized and small corporate manufacturing enterprises.

3. The War Economy Handicapped by Concentration.

The extreme concentration of industry in America was not only accentuated during the war, but, in turn, was itself responsible for certain serious inefficiencies in the handling of the war production program. The ease and facility with which the procurement agencies could ladle out contracts to a few giant corporations inevitably led them to overlook valuable productive facilities in the small plants. Many items of war production, such as aircraft, ships, and heavy ordnance could best be assembled in huge plants, and for this reason some shift in the economy toward large scale operations was to be expected. However, a considerable list of military end items, could have been readily produced in small plants, and a greater volume of subcontracting of parts and components to small plants could have

been expected. As a consequence, small plant facilities were not fully utilized and a number of small concerns were forced out of business.

Subcontracting to small plants, in reality, was never so great as was commonly assumed. The Smaller War Plants Corporation, in 1943, made a study of the prime and subcontracting records of 252 of the largest corporations, which received the bulk of the prime contract awards. The large companies employing more than 500 wage earners which received 78 per cent of the prime contracts subcontracted 34 per cent of their contracts. Three-fourths of these subcontracts went to other large companies, with the remaining one-fourth allocated to small companies.

The large-company subcontractors, in turn, passed along 13 per cent of their subcontract business to further subcontractors, with other large companies receiving 56 per cent of this second tier of subcontracts, and small companies receiving the balance, or 44 per cent. Thus, it was determined that the small companies' share of total war production consisted of (1) 22 per cent of the prime contracts, (2) 6 per cent in subcontracts at the first tier of subcontracting, and (3) 1 per cent of subcontracting at lower levels. War production allocated to small business was therefore approximately only 30 per cent of the total. In 1939, manufacturing establishments with less than 500 workers produced 62 per cent of the total value of products. 27/

27/ U. S. Dept. of Commerce, Bureau of Census, Census of Manufacturing, 1939: Vol. 1, p. 120

The large corporations accumulated huge backlogs of war orders while many small plants were under utilized or actually idle. According to data compiled by the War Production Board, 28/ order backlogs in metal products industries at the end of 1943 amounted to more than 12 months for large plants, as compared with 8 months for small plants. After adjustment for non-coverage, the small plant backlog was placed at approximately 3 months. This situation of large backlogs in big plants and low backlogs in small plants was true not only for items best adapted to large scale production, such as tanks, ships, etc., but also for products which are just as easily manufactured by small business, such as metal office and store fixtures, water purification equipment, airplane landing mats, commercial cooking equipment, metal pails, kits and cans, bedsprings, innerspring mattresses, and many other items. Such concentration of orders with large companies, led to a disruption of scheduling, planning and controlling of war production. Unbalanced scheduling inevitably caused difficulties among the military services. When large order backlogs developed, all the services wanted their orders produced immediately, which brought the intervention of expeditors, special directives, uncertainty and confusion, on a scale unwarranted even in wartime.

The Medium Shell Program of November, 1944, affords an example of the neglect of small plants in non-critical labor areas in favor of

28/ Smaller War Plants Corporation: "13th Bimonthly Report to Congress", June-July 1944, as set forth in Senate Doc. No. 234, 78th Cong., 2d Session, pp 3, 15-25.

large plants in tight labor areas. 29/ On November 25, 1944, the Army presented one of the most critical war production programs for medium shells. At that time the known production facilities, 71 small and 156 large plants, already were producing at capacity.

The Smaller War Plants Corporation undertook a rapid field survey to determine available capacity among small plants and submitted 237 screened nominations. The Ordnance Department accepted for consideration 120 of these small firms, including 16 plants for percussion primers, a separate part of the program.

Actual contracts were, however, awarded to only 52 small plants, including 26 of those recommended by Smaller War Plants Corporation. Three-fourths of the awards, in value, went to 75 large plants.

Of the large plants, 55 were in critical labor areas. Of the small plants, 27 were in critical areas. But of the 78 small plants designated by the Smaller War Plants Corporation which, although approved by Ordnance District Offices failed to receive contracts, 43 were not in critical labor areas. Moreover, the Corporation's field studies indicated that the rest of the small plants could have handled the awards either without extra workers, or with so few additional workers as not to disturb other war production locally.

29/ Smaller War Plants Corporation; "Sixteenth Bimonthly Report to Congress", December 1944 - January 1945, pp 4-5

The concentration of war contracts in large companies and the failure to utilize small plants also forced an exaggerated migration of labor away from small business centers into crowded areas, with resulting loss of labor, time and efficiency. Undoubtedly, reconversion to peacetime production will entail a return of a large proportion of these workers to their formal locations.

Finally, it should be observed that, in many cases, new facilities were built to be operated by large companies, despite the existence of unused capacity of small manufacturers, with a resulting waste of time and materials. According to the War Production Board, from July, 1940 to June, 1944, manufacturing facilities expansion amounted \$23.5 billion, of which \$15.9 billion was publicly financed and \$7.6 billion was privately financed. ^{30/} This represented an expansion in facilities amounting to more than half again as much as existed prior to the war. A large but unknown portion of this construction program would have been unnecessary if greater use had been made of the idle facilities of small plants.

^{30/} War Production Board, Bureau of Planning and Statistics: Facts for Industry, "Facilities Expansion July 1940 - June 1944", p. 6.

III. INDUSTRIAL AND FINANCIAL CONCENTRATION AND THE SYSTEM OF PRIVATE CAPITALISM AND FREE ENTERPRISE IN AMERICA

1. The Free Enterprise System Threatened by Concentration

Concentration is the very antithesis of the free enterprise system. It is a fundamental principle in America that the public interest is best served by the maintenance of competition and the prevention of the evils of monopoly.

Economic concentration leads inevitably to the eliminations of small business, the disappearance of competition, the fixing of prices, the restriction of production, and the creation of unemployment. It causes an uneconomic allocation of productive resources and prevents the full utilization of productive capacity. It obstructs adjustment to economic change and contributes to general industrial instability. Concentration blocks the possibility of improving the standard of living by failing fully to develop technological innovations. It attempts to control and limit technical experimentation and to withhold the benefits of increased production from workers and consumers, thus aggravating inequalities in the distribution of income. Finally, concentration of economic power emerges into concentration of political power, with the result that small groups of powerful interests control the state and national political life. Industrial concentration thus inevitably comes to be paralleled by the concentration of political power in the hands of a small but powerful minority.

Symptomatic of these evils of concentration are examples of

the inflexibility of prices in concentrated industries, the deliberate deterioration of quality standards and the withholding of technological advances from public use.

2. Monopoly Means High Prices. Competition Means Low Prices.

A statistical study of 37 census industries made by the National Resources Committee revealed that "the dominant factor in making for depression insensitivity of prices is the administrative control over prices which results from the relatively small number of concerns dominating particular markets." ^{31/} A few cases of price changes during the depression from 1929-32, illustrate the point.

Only slight price declines occurred in concentrated industries:

Single producers controlled all the output of nickel and aluminum. Nickel prices remained unchanged, while aluminum declined 4 per cent.

Two producers in each field controlled the markets for sulphur, plate glass and bananas. Sulphur prices showed no change. Plate glass prices decreased 5 per cent, while banana prices dropped only 2 per cent.

Three top producers controlled automobile production and the potash market. Auto prices fell 21 per cent. Potash prices fell only 9 per cent.

One company produced about 41 per cent of the agricultural implements and the largest four producers produced 72 per cent; prices declined only 15 per cent.

On the other hand, price declines during the depression were much sharper in non-concentrated industries:

Lumber, where the largest four producers account for only 5 per cent of the output, prices fell 36 per cent.

^{31/} National Resources Committee, June 1939: "The Structure of the American Economy", Part 1, p. 145

In cotton textiles, where the top four concerns produced 8 per cent of the total prices declined 42 per cent.

Wheat and corn, highly competitive fields with thousands of independent producers, experienced price declines of 56 per cent and 66 per cent, respectively.

Of even greater significance to economic welfare than the flexibility of prices during depressions is the extent to which, over an extended period of time, the benefits of technological improvements are passed along to consumers in the form of lower prices. Data compiled for the T.N.E.C. (see Table 3 on page 46) clearly indicate that price reduction are not extensively used in concentrated industries as a means of increasing output to compensate for decrease in unit labor requirements whereas in non-concentrated industries price decreases tended to parallel reductions in unit labor requirement.

In each of six concentrated industries (iron and steel, non-ferrous metals, cement, motor vehicles, cigarettes, and electric light and power) prices failed to decrease from 1920 to 1936 by as great an extent as unit labor requirements were reduced. On the other hand, in non-concentrated industries (cotton goods, woolen and worsted goods, and furniture), prices fell more than unit labor requirements. From 1929 to 1936, prices generally fell less than unit labor requirements (except in non-ferrous metal and furniture), but the price decreases were most marked in non-concentrated industries.

TABLE 3: CHANGES IN UNIT LABOR REQUIREMENTS AND PRICES
IN CONCENTRATED AND NON-CONCENTRATED INDUSTRIES
1920 - 1936

	Percentage Change			
	1920-1936		1929-1936	
	Unit Labor Requirements	Prices	Unit Labor Requirements	Prices
Concentrated Industries:				
Iron and Steel	-42.5	-33.6	-11.6	- 5.1
Non-Ferrous Metals	-47.1	-45.0	+11.0	-42.9
Cement	-51.8	-18.5	-22.3	+ 4.0
Motor Vehicles	-59.9	-53.7	-13.6	- 5.1
Cigarettes	-79.0	-23.3	-26.7	- 0.3
Electric Light & Power	-45.5	-23.2	-34.0	-12.3
Non-Concentrated Industries:				
Cotton Goods	-32.5	-57.9	-24.6	-18.7
Woolen and Worsted Goods	-31.1	-46.1	-29.1	- 6.1
Furniture	-38.5	-52.9	+ 2.2	-17.9

Source: T.N.E.C. Monograph No. 22 "Technology in our Economy"

3. Concentration Greatly Magnified by International Cartels.

Industrial concentration and monopoly in this country have developed into international cartels, or worldwide trusts, combines, and monopolies. These cartels have established private treaties -- without government participation -- between domestic and foreign monopoly groups to fix prices, divide market territories and fields of production.

Corwin D. Edwards, in his monograph on "Economic and Political Aspects of International Cartels," prepared for the Kilgore Committee, quotes two of the foremost members and advocates of cartels as follows: 32/

Sir Alfred Mond, organizer of Imperial Chemical Industries --

I use the word cartel to include fusion, pooling arrangement, quota arrangement and price convention, because a cartel is protean in its form. * * * In an ultratechnical way, a cartel might be defined as a combination of producers for the purpose of regulating, as a rule, production, and, frequently, prices. That does not involve giving up the identity of the different firms. It is not usually made for a period lasting more than a limited time. It does not necessarily carry with it, though in some cases it does, joint selling agencies. Sometimes, too, it carries with it quotas of production. But all this is, perhaps, too narrow a definition. The Germans have a term *Interessen-gemeinschaft* * * * a union or similarity of interest. The great German Dye Trust started with what they call *Interessen-gemeinschaft*. When first formed it was a fairly loose combination to regulate production and prices. It has been substituted since by an absolute and complete fusion and exchange of shares -- what we should call a complete amalgamation -- which is the final and most complete form of any kind of cartel which can be imagined.

32/ Corwin D. Edwards, "Economic and Political Aspects of International Cartels", Monograph No. 1, Senate Military Affairs Committee, 78th Congress, 2d Session, 1944, p. 1.

Sir Felix J. C. Pole, chairman of Associated Electrical Industries, Ltd. --

A cartel or association usually means an association by agreement of companies or sections of companies having common interests. It is designed to prevent extreme or unfair competition and allocate markets, and it may also extend to interchange of knowledge resulting from scientific and technical research, exchange of patent rights, standardization of products, etc. Competition is not eliminated, but it is regulated. Competition in quality, efficiency, and service takes the place of the crude method of price cutting.

Cartels are very numerous. In 1939, there were about 179 world-wide cartel arrangements, of which 133 covered manufactured goods, 32 covered minerals, and 14 covered agricultural products and services. Out of the total of 179, American firms participated in 109. Some strictly foreign cartels, in which no American firms participated directly, covered essential imported commodities, such as rubber, tea, quebracho, quinine, tin, nickel, and industrial diamonds. Cartels in which American firms joined included chemicals, plastics pharmaceuticals, electric lamps, photographic materials, aluminum, magnesium, and other metals. 33/

Cartels contributed seriously to our industrial unpreparedness for war by restricting the production and distribution of such vital products as magnesium, zinc, rubber, aviation gasoline, beryllium, titanium, electrical equipment, plastics, dyestuffs, machine tools,

33/ Milo Perkins, "Cartels: What Shall We Do About Them", Congressional Record, Vol. 91, No. 43, March 7, 1945, p. A1131

fuels, communication equipment and many other products. The consequence of cartels on the national welfare have been summed up by Wendell Berge, Assistant Attorney General, as follows: 34/

In peacetime, their high-price, restricted output strategy has impeded the advance of our living standards and general economic well-being. Through the abuse of our patent system, cartel controls have been established over large segments of technology. With this leverage, industrial monopolies of international compass have at times deliberately brought about the deterioration of quality standards. When it might be to their advantage in maintaining or exploiting their monopoly position, they have adulterated their products to an extent and in a manner endangering the health, and even the lives, of consumers. Almost incredible as these assertions may be, they are not subject to contradiction—the incontrovertible facts are clearly set forth in Congressional investigations and in the evidence in anti-trust cases of the Department of Justice.

Specific examples of these restrictive practices, as charged by the anti-trust Division of the Department of Justice before Congressional Committees, are as follows: 35/

1. Flashlight bulbs: General Electric reduced the life of lamp bulbs and discouraged bulb-testing by purchasers.
2. Flourescent lamps: General Electric, Westinghouse and the public utilities delayed the introduction of flourescent lamps and sought to prevent their use on any basis that would reduce consumption of electricity.

34/ Wendell Berge, "Cartels: Challenge to a Free World", 1944, p. 3

35/ Cf. Wendell Berge, op. cit.: "Scientific and Technical Mobilization", Hearings before a Subcommittee of the Committee on Military Affairs, U. S. Senate, 78th Cong., S. Res. 107, Parts 1, 5, 6, 9 and 10, 1943; and Joseph Borkin and Charles A. Welsh, "Germany's Master Plan," New York, 1943.

3. Synthetic rubber: In 1938, Standard Oil of New Jersey gave I. G. Farbenindustrie (Germany) full information about its butyl-rubber process, but failed to gain in return technical information about I. G. Farben's buna process until 1940. Standard blocked development of synthetic rubber in U. S. by suppressing development of butyl--best of the synthetics, cheaper than natural rubber and superior to natural rubber for inner tubes. Intimidated rubber companies from developing other synthetics by threatening to undersell them.
4. 100-octane gasoline: Standard Oil, under cartel agreement with I. G. Farben blocked commercial development of 100-octane gasoline in U. S. and withheld technical information from Army Air Corps.
5. Military optical glass: By cartel agreement between Bausch & Lomb (Rochester) and Carl Zeiss (Jena, Germany) heads of the Bausch & Lomb department responsible for military research were to be appointed only with the agreement of the Zeiss firm.
6. Spectacles: Bausch & Lomb maintained artificially high prices on spectacles by controlling patents and by withholding supplies from concerns attempting to reduce prices.
7. Plexiglass (airplane windshielding and dental plates): Rohm & Haas Co. (Philadelphia), E. I. du Pont de Nemours, Inc. (U. S.), Imperial Chemical Industries, Ltd. (Great Britain), I. G. Farbenindustrie (Germany), and Rohm & Haas (Germany) established a cartel by utilizing secret patent pools and cross licenses providing for restrictions on production, price fixing, and elimination of potential competitors. The product was sold to commercial molders for industrial uses for 85 cents a pound, while the very same product cost dental laboratories and dentists \$45 a pound.
8. Tungsten carbide (for edges of cutting tools): Control of patents by General Electric Co. and Krupp Co. (Germany) kept prices at exorbitant levels in the United States--\$453 as compared to \$50 in Germany with result that U. S. industry lost valuable "know-how."

9. Magnesium: As a result of arrangements between I. G. Farben, Dow Chemical and Aluminum Corporation of America, magnesium production was restricted in U. S., with the result that in 1940 the United States produced 5,680 tons, while Germany produced more than 19,000 tons.
10. Dyestuffs: The du Pont research laboratories developed a pigment which can be utilized either in paints or a dye for textiles. The du Pont company attempted in various ways to add contaminants to the pigment to limit its use to the paint and finishing field so as not to disturb the price structure of textile dyestuffs.
11. Vitamin D: Monopoly control is exercised through patents held and licensed by the Wisconsin Alumni Research Foundation. The Anti-Trust Division of the Department of Justice charges the Foundation with "creating a domestic monopoly resulting in division of fields, price fixing, control of container size, and limitation of potency of vitamin products--as a result of which the public has been charged excessive and arbitrarily high prices... (it) considered plans to denature and adulterate Vitamin D preparations in order to maintain high prices (and)...exhibited a lack of interest in research unless a commercial advantage could be obtained..."
12. Synthetic hormones: More than half of the synthetic hormone business in the United States has been handled by four companies, each of which is a subsidiary or affiliate of a European company. The European companies belong to a hormone cartel which has controlled the hormone business abroad and in the United States. This cartel has seriously hampered research in the field, has parcelled out markets, and restricted production.
13. Quebracho extract (for tanning of leather): Production and sale of the material controlled by a monopoly pool, or cartel, which has curtailed quantity shipped to U. S. and raised prices out of proportion to costs.

14. Titanium (white pigment for paints, rubber products, glass, paper, enamel and other materials): has been controlled by a cartel including three American corporations, National Lead, E. I. du Pont, and Titan Co. Inc. It set exorbitant prices, restricted use, and bribed potential competitors to keep them out of the business.

The magnitude of the super-concentration brought about through international cartel agreements can be readily appreciated when it is understood that, through this mechanism, many of the 200 largest corporations have effectively combined not only to parcel out foreign trade areas, but also to regulate the ebb and flow of commodities within the United States. For example, two of the biggest companies in the United States -- du Pont and Standard Oil of New Jersey -- were linked with the chemical monopoly in England and the chemical monopoly in Germany, and thus with each other. Two giant corporations -- Dow Chemical and Alco -- dominating competing metals, magnesium and aluminum, effectively side stepped competition with each other through cartel agreements with I. G. Farben.

4. Domination of Research Techniques A Basis for Industrial Monopoly.

The evidence clearly points to the conclusion that the basis of industrial monopoly, and thus concentration of economic power, is traceable, more and more, to the control of research and invention by domestic and international cartels. According to Thurman Arnold: 36/

To break that control, to free our economy in the new industrial age which every forward-looking technician

36/ "Scientific and Technical Mobilization", Hearings before a Subcommittee on Military Affairs, U. S. Senate, 78th Cong., S. Res. 107, Part 1, p. 6

believes is coming, as well as to speed up the war effort, we must break up the patent pools which put barriers against independent initiative in research and invention.

But this alone is not enough. The patent itself is only an instrument of aggressive warfare to stop invention by persons not employed by our great cartels. The control of the "know-how", the knowledge of results of basic experimentation, is even more important than patents. Out of that control patent monopolies get their start. It is the foundation on which patent pools are built.

As indicated earlier in this report, facilities for technical industrial research are highly concentrated in a few companies. The National Research Project on Reemployment Opportunities and Recent Changes in Industrial Techniques states that: 37/

According to the evidence presented, 13 companies employed one-third of the industrial research personnel reported for 1938: 140 companies, representing less than 10 per cent of the number reporting, employed two-thirds of the workers. The remaining third was employed by 1,582 concerns. About 150,000 industrial corporations were without research laboratories. In 9 leading industries one-fourth of those companies which operated laboratories employed between 55 and 90 per cent of the research workers in the respective industries.

5. Few at the Top Control Giant Corporations.

The relatively few giant corporations of the country which have come to dominate our entire economy are, themselves, largely owned by only a few thousand stockholders and are controlled by a mere handful of huge financial interests. The Securities and Exchange Commission

37/ Works Progress Adm., National Research Project on Re-employment Opportunities and Recent Changes in Industrial Technique, "Industrial Research and Changing Technology", 1940, pp 45-46

prepared a 1,500 page monograph for the Temporary National Economic Committee on "The Distribution of Ownership in the 200 Largest Non-financial Corporations." This document clearly indicates the narrowness of ownership in these dominant corporations. The following conclusions may be cited: 38/

1. All American corporations:

- a. Ownership: Only 10,000 persons (0.008 per cent of the population) own one-fourth, and 75,000 persons (0.06 per cent of the population) own one-half of all the corporate stock in the country.
- b. Cash dividends: The 1,000 largest dividend recipients received 10.4 per cent of the dividends while 61,000 persons (0.047 per cent of the population) received one-half of the dividends.

4. Largest 200 non-financial corporations:

- a. Ownership: The top 1 per cent of the book shareholdings accounted for 60 per cent of the common stock shares outstanding.

The 20 largest book shareholding accounted for more than 50 per cent of the common stock outstanding in about one-fourth of the 200 corporations; from 25 to 50 per cent in one-fifth of the corporations; and from 10 to 25 per cent in one-third of the corporations.

- b. Control: Three family groups -- the du Ponts, the Mellons and the Rockefellers -- have shareholdings valued at nearly \$1,400,000,000 which directly or indirectly give control over 15 of the 200 largest non-financial corporations with aggregate assets of over \$8,000,000,000 -- or more than 11 per cent of their total assets.

38/ Temporary National Economic Committee, Monograph No. 29, "The Distribution of Ownership in the 200 Largest Non-financial Corporation."

This high degree of concentration of ownership, as the T.N.E.C. points out, must be regarded as the minimum measure of control over the 200 large non-financial American corporations. There are numerous ways in which control over corporations can be exercised other than through direct stock ownership. Some of these other instruments of control are proxy machinery, interlocking directorates, investment trusts, trade associations and banking affiliations. It is principally through these more indirect methods that the great financial interests of the country-- the Morgans, Mellons, du Ponts, etc. --- really exercise most of their tremendous power and control.

The National Resources Committee in the monograph on "The Structure of the American Economy" examined the formal inter-relationships between the 200 largest non-financial corporations and the 50 largest financial corporations in 1935, to determine the extent to which management and the formulation of corporate policy is centralized.

The Committee found:

- (1) Interlocking directorates -- Only 25 of the corporations had no director in common with at least one other corporation on the list. Between them, 400 men held nearly a third of the 3,544 directorships on the boards of the 250 corporations. Of the total, 151 companies, whose assets amounted to nearly three-quarters of the combined assets of the 250, were interlocked with at least three other companies in the group.

"There can thus be no question of the very extensive formal interlocking of the large corporations."

- (2) Intercompany stockholding -- In at least 30 of the 250 large corporations, 10 per cent or more of the voting power derived from stock ownership was held directly or indirectly by another corporation in the group or by one of the 9 financial or holding companies not included in the list, but clearly part of the corporate community.

"It is clear that while none of these corporations are legally controlled by another corporation, they are not entirely independent of each other."

- (3) Firms providing financial, legal and accounting services -- In 1935, 175 of the 200 largest nonfinancial corporations issued new securities. According to the Securities Exchange Commission, 56 per cent of all the corporate underwriting in that year was initiated by only 10 firms.

The 10 largest accounting firms certified 52 per cent of the accounts of all the accounting firms (754 in number).

"All of these firms rendering special services to the big corporations necessarily deal with some important phase of corporate policy for each of the corporations which they serve. Almost inevitably they contribute in conferences and individual discussions to that climate of opinion within which corporate policies are formed, carrying from one corporation to another some degree of common background and temper of thought which adds a measure of unity to the corporate community."

- (4) Financial Corporations Control over investment funds -- In 1935, banks, insurance companies, and similar financial corporations owned approximately a quarter of all the outstanding bonds of American corporations.

"Because of the magnitude of the funds from which they are responsible, the financial institutions are often able to exercise a major influence in such proceedings.."

6. One-Third of Nation's Non-Financial and Banking Resources Controlled by Eight Interests.

On the basis of the various industrial and financial alliances and a careful consideration of the historical development of each of the corporations the National Resources Committee was able to determine upon eight more or less clearly defined interest groups which exercise common influence and control over many of the giant corporations. The extent to which these eight groups control the 250 large corporations and all non-financial and banking corporations is indicated in Charts VIII and IX (see pages 60 and 61).

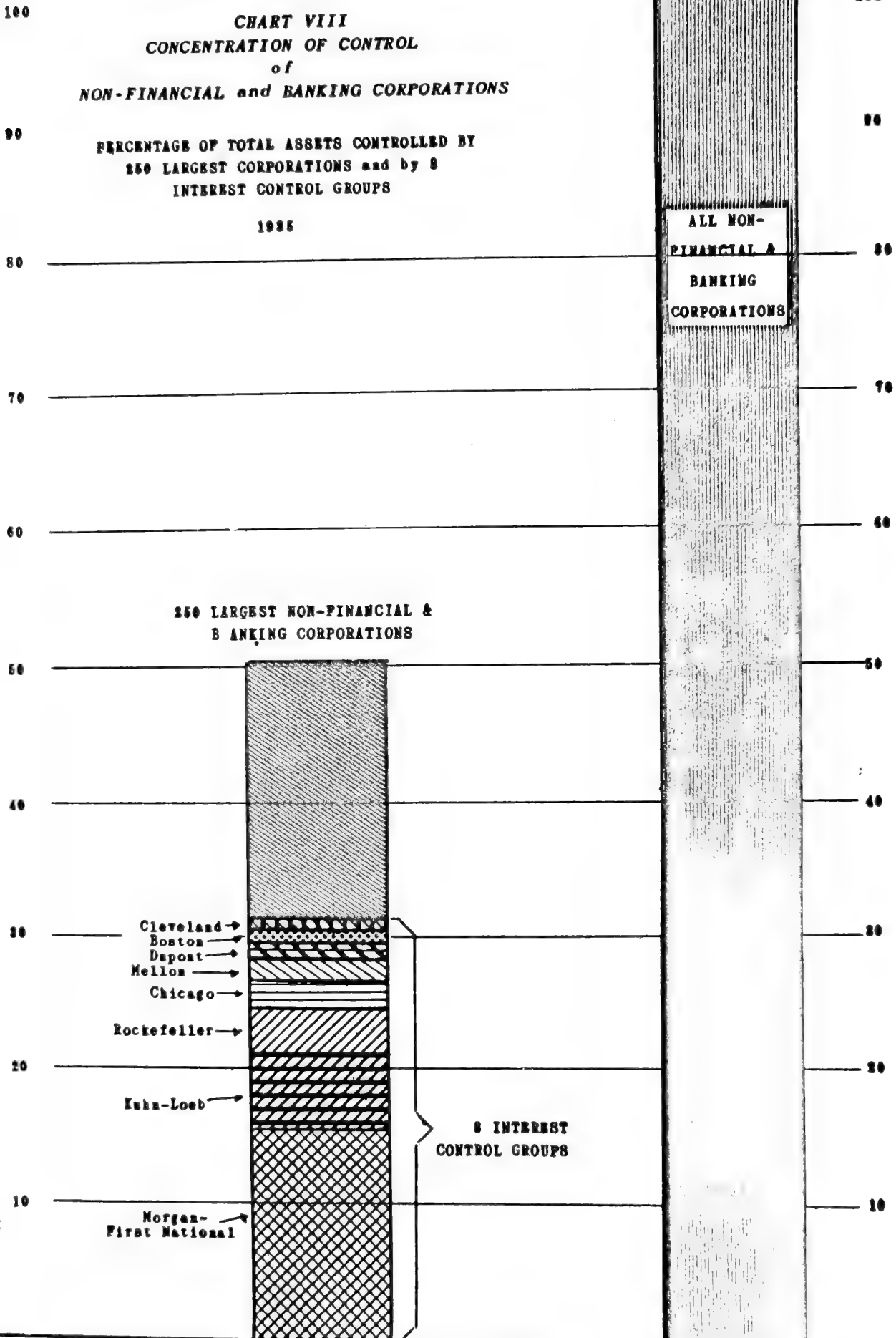
As the charts show, the control of these eight interest groups over the 250 largest corporations represents more than 31 per cent of all non-financial and banking assets. Together the eight interest groups control 106 of the 250 larger corporations and nearly two-thirds of their combined assets. No attempt is made to include the assets of smaller corporations falling under their control though many such could be named.

The largest of the eight interest groups is that known as Morgan-First National, and is so designated because much of the interrelation between the separate corporations included under this sphere of influence is brought about through these two institutions -- J. P. Morgan & Co. and the First National Bank of New York. The group includes 41 of the 250 larger corporations, 10 of which had 2 or more directors in common with J. P. Morgan and Co. It is made up of 13 industrial corporations headed by the United States Steel Corporation and including corporations mining iron ore, copper, and coal, extracting oil, making steel and brass, fabricating electrical equipment, railway equipment, and plumbing and heating

CHART VIII
CONCENTRATION OF CONTROL
 of
NON-FINANCIAL and BANKING CORPORATIONS

PERCENTAGE OF TOTAL ASSETS CONTROLLED BY
 250 LARGEST CORPORATIONS and by 8
 INTEREST CONTROL GROUPS

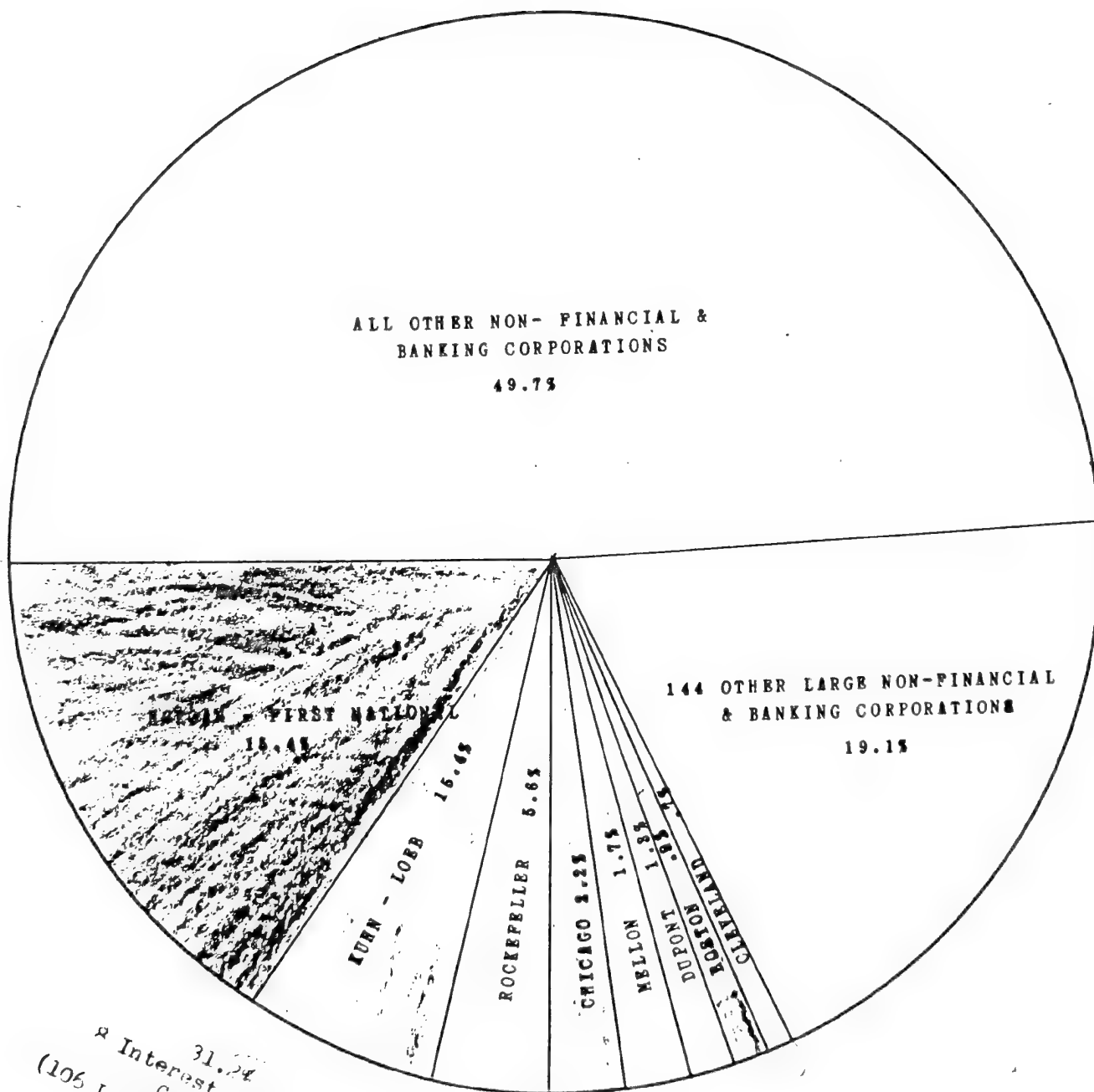
1935



CONCENTRATION OF CONTROL
OF
NON-FINANCIAL AND BANKING CORPORATIONS

Percentage of Total Assets
Controlled by
250 Largest Corporations
and by 8 Interest Control Groups

1935



8 Interest Control
Groups
(106 Large Corporations)
31.2%

apparatus, and supplying bakery products, mail-order services, and Pullman services; 12 utility corporations, including the American Telephone & Telegraph Co., the International Telephone & Telegraph Co., and power companies controlling, in 1935, 37 per cent of the electric generating capacity of the country, 11 major railroads or railroad systems, controlling 26 per cent of the first-class railroad mileage of the country; and 5 financial institutions including the 2 for which the group has been named. According to the Committee, "While it is certain that the extensive economic activity represented by these corporations is in no sense subject to a single centralized control, it is equally certain that the separate corporations are not completely independent of each other."

The second interest group in importance is the Kuhn-Loeb group and consists primarily of railroads whose financing has for many years been handled by Kuhn-Loeb & Co. It includes 13 major railroads or railroad systems which together controlled approximately 22 per cent of the first-class railroad mileage in the country in 1935, The Western Union Telegraph Co., and one bank.

While the two largest interest groups stem primarily from the activities of financial institutions, three interest groupings derive principally from family interests well-established in the industrial field -- Rockefeller, Mellon and du Pont. The largest of these, the Rockefeller group, includes six large oil companies and one bank -- Chase National Bank, the largest in the country. The Mellon group

includes 9 industrial corporations, one railroad, 2 utilities, and 2 banks, many of which are not only controlled, but also owned by the Mellon family. The third family group, du Pont, includes only four companies -- three industrials and one bank.

The control of these three families only slightly exceeds ownership, for, among the 200 largest non-financial corporation (excluding banks), they owned 15, with assets of \$8 billion, while they controlled 21, with aggregate assets of \$9 billion. On the other hand, control far exceeds ownership in the case of the Morgan First National Group.

The remaining three of the eight major interest groups appear to stem neither from particular financial institutions nor from particular families but rather to bring together corporations whose activity centers in particular localities. For this reason, they have been named for the regions in which they center, the Chicago group, the Boston group, and the Cleveland group. In each case, the group includes one or more banks located in the center for which the group is named, industrial activities carried on in the vicinity, such as meat packing in Chicago, shoe machinery in the vicinity of Boston, and steel in the Cleveland area, and, in the case of two of the groups, local utilities. Just how closely knit these groups are it is not possible to say, but there can be little doubt that they exist as roughly interrelated groups.

The way in which these major interest groups modify the structure of industry may be readily seen in the case of the steel

and copper industries. On January 1, 1945, the four largest steel producers held 62.8 per cent of the country's steel ingot capacity. ^{39/} This, however, understates the narrowness of control. The Morgan-First National interest group controls U. S. Steel, with its 33.8 per cent of the country's steel ingot capacity -- not including the government owned Geneva Steel Plant, operated by U. S. Steel. The Cleveland Group controls through Cleveland-Cliffs Iron (which itself owns, next to U. S. Steel, the largest supply of unworked iron ore in the country) four of the so-called steel independents - Republic Steel Corp., Youngstown Sheet & Tube Co., Inland Steel Company, and Wheeling Steel Corp. - whose combined ingot capacity amounts to 20.1 Per cent of the country's total. Bethlehem Steel Company -- the second largest individual producer -- holds 13.5 per cent of the ingot capacity. Finally, the Mellon interests, with three companies -- Jones & Laughlin Steel Corp., American Rolling Mill Co., and Crucible Steel Co. of America -- control 10.3 per cent of the total. Thus in effect, three interests groups and one independent corporation control eight of the ten largest steel producers, whose aggregate steel ingot capacity represents 77.7 per cent of the total for the country.

It was pointed out earlier that the four largest copper producers accounted for 86 per cent of the country's output of the metal. The largest producers -- Kennecott Copper and Phelps Dodge -- fall within the Morgan-First National sphere of influence. Thus, in effect, one group controls nearly two-thirds of the copper mining industry.

^{39/} W. A. Hauck: "Steel Expansion for War," June 14, 1945, p. 13 Steel Division, War Production Board, reprinted by STEEL.

Earlier in this report it was stated that three-fifths of the postwar capacity to produce was concentrated in 250 giant manufacturing corporations. Actually, 31 of these corporations are bound into 5 interest groups. These 5 interest groups — Rockefeller, Morgan, du Pont, Mellon and Cleveland — possess themselves approximately 30 per cent of all the postwar capacity to produce.

Finally, it should be pointed out that, while 90 of the 200 non-financial corporations have been included in the eight interest groups, there are a number of other corporations which have close ties with them. Also the eight interest groups are by no means independent of each other, coming together on boards of directors and in many other activities. Most of the giant corporations, furthermore, have influence and controls which extend to medium-sized and small companies and most of them are bound together, in one way or another, through trade associations, and such "peak" associations as the U. S. Chamber of Commerce and the National Association of Manufacturers.

IV. AMERICAN SMALL BUSINESS IN THE WAR EFFORT PRIOR TO THE CREATION OF THE SMALLER WAR PLANTS CORPORATION.

1. Small Business Neglected Before the Establishment of SWPG.

Throughout the rapid development of the national defense program in 1940 and 1941, and through the early months of the war program after Pearl Harbor, the forgotten sector of the American economy was small business. This was true, even though the urgent demand for the materials of war of all kinds throughout this period was far greater than the current supply. The productive resources of small business remained unused for the most part. Not until the creation of the Smaller War Plants Corporation in June, 1942, was there a real possibility of change for the better.

This failure to utilize the productive capacity of small business is evidenced by all the relevant data. For example, there were about 184,000 manufacturing establishments in the United States in 1941, of which about 45,000 were estimated to be available for war work. 40/ Yet, at the end of September, 1941, 75 per cent of all Army and Navy contracts were awarded to 56 concerns. 41/ The remainder of the defense program - one-fourth - was distributed among 6,000 prime contractors. Of the concerns not included in the defense program

40/ Testimony of Floyd B. Odum, Director, Division of Contract Distribution, Office of Production Management, in Hearings pursuant to S. Res. 298 (76th Congress), Part I. p. 209.

41/ Testimony of Stacy May, Chief, Bureau of Research and Statistics, Office of Production Management in Hearings pursuant to S. Res. 298 (76th Congress), Part I, p. 25.

directly, about 4,000 held subcontracts. 42/ About 35,000 concerns which were available for contracts had no war work at all.

Further light is thrown upon this general picture by a joint study of the Office of War Information and the Department of Commerce. This study 43/ examined the condition of manufacturing firms employing 125 workers or less during the early stages of the war. It found that from January, 1941, to January, 1943, when the output of industry as a whole was expanding tremendously, physical production of the smaller concerns remained constant. It discovered that idle capacity among these small firms was the rule rather than the exception: 30 per cent of these concerns reported that they could at last double production without new machinery or plant; 15 per cent said they could increase output from 50 to 100 per cent; 25 per cent said they could increase output from 1 to 49 per cent. In all, 71 per cent of the small concerns, with existing plant and machinery, could have increased output appreciably. At the same time, according to this study, about one-third of the smaller manufacturers were either "experiencing or facing" an actual curtailment in output. 44/ While our armed forces pleaded for more and more production, the vast and flexible potentialities of small business thus lay virtually unexplored.

42/ Testimony of Floyd B. Odlum. op. cit.

43/ For a full description of this study see Howard R. Bowen, Impact of the War Upon Smaller Manufacturing Plants. Survey of Current Business, July 1943 and March 1944.

44/ Ibid., Survey of Current Business, July 1943, p. 6.

Moreover, while many thousands of small firms were permitted to remain idle, billions of dollars were spent to create giant new facilities for big business. By the end of 1941, about \$3 billion had been spent for this purpose. For the early years of the war effort, however, no precise figures are available concerning the distribution of government-financed facilities by size of firm. Nevertheless, it is known that, as of June 30, 1944, \$11 billion of government funds had been expended for completed plant expansion; 83 per cent by value of all these new government-financed facilities had gone to 168 leading corporations. ^{45/} The big thus grew bigger while small companies were struggling to survive.

2. Reasons for Early Exclusion of Small Business from the War Effort.

Why was small business up to this point virtually excluded from the war program? The answer to this question has been provided in some detail by the reports and hearings of the special Committee to Study Problems of American Small Business of the U. S. Senate. ^{46/} The reasons as developed by the findings of this Committee, follow:

1. It was "easier" for the government to buy from big business than from small business. From the standpoint of a procurement officer, the problems involved in giving one large order to one big company were simpler than those involved in breaking up the order into smaller units for distribution to several small companies.

^{45/} War Production Board Report on Public Financed Industrial Facilities, December 1, 1944, Table 2.

^{46/} See especially Report No. ^{47/}, Part 2, 1942.

2. Many procurement officers who had themselves been associated with big business appeared unaware of the productive capacity of little concerns. Thus, the Senate Small Business Committee stated: "In some cases the fact that the procurement officers have always been associated with large business has even made the neglect (of small business) seem deliberate; but in general all of the contract departments have failed to recognize the vital role of small business - with its plant, machinery, managerial ability, and skilled labor -- in the winning of the war." 47/

3. Unlike big business, small firms could not afford to maintain representatives in Washington, who could meet personally with procurement officers and secure orders as well as the essential materials with which to take care of them. Economically speaking, small business remained inarticulate, while big business pressed its claims on every side eloquently and forcefully. This was still another reason why it was "easier" for government officials to give orders to big business.

4. Further, small business was unable to obtain credit in adequate amounts and on reasonable terms. Even when, on occasion, a war contract might otherwise have been available, smaller firms were often unable to finance the undertaking. Private credit facilities, which are available for big business, are ordinarily not available to the same extent for small business; moreover, when smaller firms are able to obtain a loan, the interest rate charged is usually higher than

47/ Report 479, Part 2, p. 1.

that for larger firms. Until the SWPC was created, there was no government agency specifically directed to meet the credit needs of small business.

15. Unlike big business, small firms were unable to finance elaborate research programs to expedite their conversion to war production. Moreover, no government agency was established to satisfy the needs of small business for engineering and other technical advice and guidance until the SWPC was set up.

3. Case Studies of the Neglect of Small Business.

The plight of small business during this period is described dramatically in the testimony of various small businessmen before the Senate Banking and Currency Committee in early 1942. A few typical cases are described below.

Case I. 48/ Walter M. Ringer, a small manufacturer of Minneapolis, Minnesota, declared that his company had devised a method of producing light-weight mess kits and canteens of steel, in order to save aluminum. In the summer of 1941 he came to Washington, visited officials of the OPM and the Quartermaster Department, and succeeded in obtaining encouragement for his plan. He thereupon returned to Minneapolis to prepare samples; this preliminary work cost "3 or 4 thousand dollars for dies" and "required a couple of months". Samples completed, Mr. Ringer visited Washington again, received further encouragement but

48/ Statement of Walter Ringer, President, Foley Manufacturing Company, in Hearing before a subcommittee of the Committee on Banking and Currency, U. S. Senate (77th Congress) 2nd Session, on S. 2250, pp. 52-53, and pp. 100-101.

no orders. A few months later Mr. Ringer learned that the essence of his idea had been adopted by the War Department. However, his firm received no orders. They went to the "larger companies". Meanwhile, employment in Mr. Ringer's plant, which was engaged mainly in producing kitchen utensils, declined from 250 to 125, because of difficulty in obtaining scarce materials. Here was a small business which had devised a plan for converting to useful war production but was not permitted to do so.

Case II. 49/ Twelve small manufacturing plants in Marin, Sonoma and Napa counties, California, upon their own initiative early in the defense effort, organized a defense manufacturing pool. Consisting of general machine shops, oil-burner and gas furnace manufacturers, a brass and bronze foundry and an electroplating firm, the pool possessed great industrial flexibility, high technical skill and considerable capacity. The pool had checked with the Department of Justice, to insure that it did not contravene the anti-trust laws; it was certified as lawful. It had checked with the OPM, which investigated its facilities and certified the pool as fit and available for war production. The OPM assured the pool that it would be awarded "contracts on a negotiated basis -- the cost-plus arrangement -- or else educational contracts, as they are called, to test our capacities, familiarize us with the work, and give us a chance to find out in practice what the costs are and what terms would be necessary for us to make a profit."

49/ Statement of H. H. Schwartz, General Manager of the Defense Manufacturing Pool, San Rafael, California, in Hearings before a subcommittee of the Committee on Banking and Currency, U. S. Senate (77th Congress) 2nd Session, on S. 2250, pp. 167-169.

Months passed and the pool received no prime contracts of any kind. Contracts went only to the large concerns. For a time, the large concerns placed subcontract orders with the pool, but soon even these began to fall off. Operations of the small business pool dropped from 80 per cent of capacity to 20 per cent of capacity. Said H. H. Schwartz, general Manager of the pool:

The large concerns that are the prime contractors are unwilling for small plants to get any of this work. They were not at all prepared to do some of it, for they did not have the proper machines for it. But they have placed orders at once for the machinery that would be required, and as fast as they get it installed in their own plants they stop making subcontracts with us and other small plants.

Our plants, which a few months ago were using their facilities to about 80 per cent of their capacity, are now down to about 20 per cent of capacity. A part of this reduction is due to the loss of pre-war and non-defense work. But we have gradually lost about half of our subcontracting war production work.

This is a loss that concerns more than just our pool members. It represents pure waste, from beginning to end.

The large concerns have wasted the time and work of our tool-making industry in making machines for them that already existed in our plants. And when you consider that this is not an isolated example, but is going on everywhere in the war production industries, the waste through unnecessary duplication is enormous.

Having secured the machinery, the large plants then keep for themselves all the work that our pool was organized to do. When they need workers with special skills, they advertise for them and take them from our plants.

The result, if this goes on, will be that our plants will be entirely idle, our machinery entirely unused.

Case III. 50/ Five small manufacturing companies in Chicago, Illinois, and one in Haverhill, Massachusetts, organized a defense

50/ Statement of George M. Glassgold, New York City, representing Allied Automatic Machines, in Hearings before a subcommittee of the Committee on Banking and Currency, U. S. Senate (77th Congress), 2nd Session, on S. 2250, pp. 117-119.

production pool in order to "do their share and obtain contracts in the war effort." Ordinarily, these companies produced vending machines, phonograph controls, novelty games and other civilian items, production of which was being rapidly curtailed by the OPM. The pool, however, quickly converted to a war footing -- and all the companies involved possessed highly trained engineering staffs. They were soon able to produce such badly needed war items as: electrical relays, timing units, solenoids and electromagnets, photoelectric equipment, screw machine parts, light machining, spot and arc welding, spinning, electric cable forming, and many others. The pool detailed schedules of their facilities to the OPM, Army Ordnance, Navy Department, and Signal Corps Department, as well as to the large contracting companies. The pool passed with high rating all inspections of its facilities. But it received no orders. Operations of the member companies of the pool dropped to about 25 per cent of normal peacetime levels.

Explaining why these small companies received no orders, one of the pool members declared:

One (reason) was the shortness of time given to submit bids, making it impossible in many instances to make proper estimates for the submission of these bids. Where specifications were obtainable, the drawings and plans were not available until sometimes 1 and 2 days before bid openings. In many cases the bid information and the specifications for the article were insufficient so that it became impossible for anyone but a previous supplier to bid on the item.

Naturally these items in the past have been supplied by the large companies and when bids are requested the information is already available to these large companies, which again puts small concerns completely out in the cold.

Furthermore, if a company requests plans and specifications, then cannot or does not bid two or three times in a row, it is taken off the bidding list of the Army and Navy, even though the failure to bid may not have been the fault of the company. No regard is given to the fact that the failure to bid might have been due to the shortage of time given to bid, or the inability to obtain drawings in sufficient time, or that the information or specifications were incomplete, or the insufficiency of time to find where certain parts required in the work were obtainable.

On major negotiated contracts these small companies are not called in but they are negotiated with by the so-called large companies. Invariably, the small companies are told that they have not sufficient or proper equipment, overlooking the point that these are going, successful concerns of considerable financial worth with extraordinary engineering personnel, management, and equipment.

Moreover, repeated protests by the small companies that they are both in a position to and ready, willing and able to buy new equipment have been all to no avail. This condition exists in face of the large grants of money given by our Government to the large companies for the purchase of new equipment and the construction of new plant facilities.

Case IV. 51/ A small manufacturer of Chicago, Illinois, operated a tool and die shop which had been in business since 1928. Highly skilled, this manufacturer quickly converted -- so far as possible -- from the production of civilian tools and dies to those needed for war. The ability of the firm was soon recognized. It knew how to figure its costs. Its prices compared favorably with anyone's. It received war orders. It never met with a single rejection of its products. Nevertheless, this firm was unable to convert fully to war production because it could not get a loan. With existing building, space and personnel, the firm's proprietor

51/ Statement of Maurice Potkin, partner in Almac Die and Tool Works, Chicago, Illinois, in Hearings before a subcommittee of the Committee on Banking and Currency, U. S. Senate (77th Congress), 2nd Session, on S. 2250, pp. 89-90.

estimated that he could increase his war production by 75 per cent. All that was lacking was a long-term loan sufficient to enable him to procure \$35,000 worth of additional and necessary machine tools. But small concerns were notoriously unable to obtain long-term loans from any source. This firm was no exception.

Therefore, prior to the establishment of the SWPC, little use was made of the facilities of small business in the war program. Individually, the four cases described above were unimportant; but, considered as typical of thousands of small firms throughout the United States, they are of tremendous importance. Their stories meant that the industrial facilities of America were being only partially used, when the nation's very life was endangered and every unit of production gravely required. They meant that big business was "hogging" the war program while small business was brushed aside. As the Senate Small Business Committee commented: "The truth is the position of small business has long been precarious. The effect of the defense program has been to grease the skids". 52/

4. Financing Small Business Before SWPC.

Under the anxiety and stress of war the Congress made available billions of dollars for war purposes. The control of these funds was in the hands of the Army and Navy and the RFC. With all the energy at their command, the administrators of these funds rushed to the assistance of war production. Funds in unlimited quantities were made available to the big business institutions for war production on

52/ Report No. 479, Part 2 of the Senate Small Business Committee, February 5, 1942.

practically a carte blanche basis. Enormous contracts were let to big concerns with little knowledge of what the final product would cost and in fact with hardly any designs of the products to be produced. These were yet to come from the drafting boards of the concerns who were given the contracts. When Federal Loan Administrator Jesse Jones appeared before the Banking and Currency Committee to testify in opposition to the Smaller War Plants bill, his testimony showed that through his organization some eleven billion dollars had been loaned for expansion of war plants and for the construction of new plants to be leased to big manufacturers. But practically no attention had been paid to the possibility of production through the smaller concerns. Only approximately 1/4 of one per cent of the money loaned had been in amounts under \$100,000. Small plants attempting to borrow money in Washington were given the runaround. They were told if they could get a war contract they could get financed, but the procurement officers responded by saying if they could first get financed they could get a war contract. So small business was practically shut out from government aid in the early stages of the war program before Smaller War Plants Corporation was established.

5. The Effect of the Neglect of Small Business During The War.

The effect of denying small business its just share in war production was also to increase immensely the concentration of economic control in a few giant corporations. In 1939, "giant" corporations, those with assets of more than \$50 million, constituted only 3/10 of

1 per cent of all manufacturing corporations, but controlled full 43 per cent of the total assets of all manufacturing corporations. By 1942, the control of the giants had grown even stronger, comprising 49 per cent of total assets. On the other hand, small corporations -- those with assets of less than \$1 million -- constituted 90 per cent of all corporations. But, in 1939, these small corporations owned only 15.6 per cent of all assets and, by 1942, the proportion had fallen to 11.3 per cent. With reference to the growth in concentration, the Senate Small Business Committee wrote:

"This is a process which threatens our democracy at the very foundation. This is a process moving with constantly increasing speed and power, threatening eventually to engulf our whole nation. It is a process which cannot be checked by temporary stop-gap methods." 53/

The subsequent recommendations of this Committee resulted in the bill which created the SWPC, the details of which are presented in a section which follows.

53/ Ibid. p. 18.